Research report 109

ACCA

Narrative Reporting by UK Charities

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ACKNOWLEDGEMENTS

The authors wish to express their gratitude to the charities that provided copies of their annual reports and annual reviews and to those individuals, whose comments and views are reported in Chapter 6 of this report, who kindly agreed to be interviewed. Furthermore, we would also like to thank ACCA for the financial and research support for this project, and the anonymous reviewers for their very helpful comments.

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ISBN: 978-1-85908-452-6

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Abbreviations

AGM	Annual general meeting
ASB	Accounting Standards Board
ASC	Accounting Standards Committee
C&AG	Comptroller and Auditor General
CSR	Corporate social responsibility
DfID	Department for International Development
EU	European Union
FRS	Financial Reporting Standard
GB	Great Britain
IC	Intellectual capital
NI	Northern Ireland
NFP	Not-for-profit
NFPO	Not-for-profit organisation
NGO	Non-governmental organisation
OSCR	Office of the Scottish Charity Regulator
SEA	Service efforts and accomplishments information
SEC	Social Enterprise Coalition
SEL	Social Enterprise London
SEO	Social enterprise organisation
SEU	Social Enterprise Unit
SIRs	Summary Information Returns
SIT	Social Investment Taskforce
SORP	Statement of Recommended Practice
SSAP	Statement of Standard Accounting Practice
UK	United Kingdom
VFM	Value for money

Executive summary

THE CHARITY SECTOR IN THE UNITED KINGDOM

The not-for-profit (NFP) sector has grown extensively in size and prominence in recent years and policymakers the world over have come to embrace the role that NFP organisations (NFPOs) play. The charity sector in the United Kingdom (UK) is a crucial partner in the development activities of government. It includes organisations that dispense funds for charitable activities, or conduct such activities themselves, and comprises a vast and growing segment of economic activity. In 2007 there were more than 169,000 charities in England and Wales registered with the Charity Commission with an estimated total annual income of more than £44.5 billion (Charity Commission 2007a). In addition, there are over 23,000 charitable organisations in Scotland and 4,500 organisations in Northern Ireland (NI) with total estimated annual incomes of approximately £8 billion and £614 million respectively (NI Council for Voluntary Action 2005; Office of the Scottish Charity Regulator (OSCR) 2008).

While the growth in the size and influence of the sector has led to increased visibility and scrutiny by diverse stakeholders, including government, private donors, clients, the media and the public, it has been difficult to quantify the extent of its contribution to the social well-being of individuals or communities. Moreover, there are a number of different legal structures within which charities may operate and several may actually co-exist in a single organisation. The permutations that may result create a complex structure for the sector which, together with the difficulties in defining it, has immense implications for the development of clear principles of accountability. These complexities are compounded further by the fact that the system of charity administration differs throughout the UK. One system covers England and Wales, while different systems cover NI and Scotland.

CHARITY ACCOUNTABILITY

Organisational accountability plays an important role in the private and public sectors, and the discharge of accountability in the NFP sector is fast gaining momentum (Ebrahim 2003a). While the concept of accountability remains elusive and lacks a precise definition (Patton 1992), it is a key mechanism by which charities can achieve legitimacy for themselves, their activities and the sector as a whole including their diverse stakeholder groups. Specifically, following a number of highly publicised scandals that have placed the use of charitable funds under even greater scrutiny (Brody 2001; Beattie et al. 2002; Ebrahim 2003a; Home Office 2003; Charity Commission 2004a), charitable organisations can legitimise their activities and operations by accounting to, and being open and transparent with, the providers of the funds and other interested stakeholders such as oversight bodies and the public at large. Moreover, to gain trust and credibility from beneficiary and client groups, charities need to account to, and take account of, the views, expectations and considerations of these ‘downward stakeholders’. In other words, consistent with the approach taken by the Accounting Standards Board (ASB) (2007), charities have an ‘upward’ accountability to their funders and financial supporters, government and oversight agencies and the public at large, as well as a ‘downward’ accountability to the beneficiary groups and clients who use their services.

There are a number of different vehicles through which organisations may discharge accountability to their stakeholders, but the focus of this research is on information communication through annual reports, annual reviews and websites. Although the annual report is the only mandatory document published, annual reviews, as voluntary documents, afford management a level of flexibility and the Internet provides the opportunity to reach vast audiences in an efficient and cost-effective manner.

There have been a number of recent initiatives, both regulatory and voluntary, to encourage and promote charity accountability through information communication. Examples include revisions to the Statement of Recommended Practice (SORP) (Charity Commission 2005), the introduction of Summary Information Returns (SIRs) in response to the government’s review of the sector (Home Office 2003) and the establishment of the Guidestar UK website and the ImpACT Coalition (see Appendix A).

Although traditional financial statements contained in charity annual reports enable users to assess the financial position of the organisation and how its funds were acquired and/or spent, they play a limited role in discharging accountability as they provide little information about success, performance and impact (Hyndman 1990; Torres and Pina 2003). Accounting narratives through which organisations relay their performance and achievements to their stakeholders, together with their future plans, in the context of their objectives, strategies and activities are arguably more useful in discharging accountability (Charity Commission 2005; Gibson 1978; Gray 1983; Miah 1991).

Accordingly, the accountability system (developed by Taylor and Rosair 2000, Brody 2001, and the Charity Commission 2005 and based on previous research (Hyndman 1990; Torres and Pina 2003), has three themes or mechanisms of accountability. These are based upon narrative information about which charitable organisations should report, and can be developed and researched. The three themes are:

- fiduciary accountability, which emphasises probity, compliance, control and good governance
- financial managerial accountability, which examines managerial performance within the financial dimension, and focuses upon the financial position, stability and success of the organisation
- operational managerial accountability, which addresses an organisation’s achievements and performance in relation to its charitable objects.

EMPIRICAL RESEARCH

Previous research examining charity external reporting practices can be broadly categorised into two strands: studies that have inquired into the extent to which charity financial statements comply with the extant SORP (Ashford 1989; Gambling et el. 1990; Hines and Jones 1992; Williams and Palmer 1998; Connolly and Hyndman 2000, 2001) and those that have inquired into the disclosure patterns of information outside the annual financial statements (Hyndman 1990; Connolly and Hyndman 2003; Charity Commission 2004a; Connolly and Dhanani 2006). The main conclusion to be drawn from the findings of the first type of research is that charities' external financial reporting is characterised by a diversity of accounting practices and a lack of standardisation that has resulted in difficulties for users in understanding financial statements. Those studies in the second category, which have examined disclosures outside the financial statements, have also broadly reported a failure to discharge accountability to external stakeholders.

This present study, which focuses on the top 104 UK charities, falls into the second category and extends previous research by:

- examining narrative reporting patterns in annual reports and annual reviews, and considering the extent to which various recent initiatives such as the 2005 SORP (Charity Commission 2005) and SIRs have led to improved charity accountability
- analysing the use of the Internet as a mechanism for discharging accountability, and
- reporting the views of key charity personnel in relation to the role that charity annual reports, annual reviews and websites play in the discharge of accountability to external stakeholders.

The findings are based upon:

- an analysis of the annual reports and annual reviews of the 75 charities that responded to the request to supply these documents (72% response rate)
- an examination of the website of each of the top 104 UK charities (where available), and
- 12 semi-structured interviews with senior personnel from 11 charities.

In addition, this research also examines the narrative reporting practices of a small number of social enterprise organisations (SEOs).

KEY FINDINGS

The interviews with key charity personnel highlighted that, consistent with stakeholder theory, charities recognise their duty and responsibility to account to their diverse stakeholder groups. There is general acceptance that charities are accountable to both their upward (funders, donors and supporters) and downward (beneficiary and client groups) stakeholders, and that other groups such as oversight agencies, the government and the public at large are also important. Charities, it appears, do not implicitly rely on their altruistic motives and 'doing good' to make up for such responsibilities. Therefore, it is disappointing that 36% of charities contacted did not fulfil their statutory obligation and provide a copy of their annual report upon request.

Although, in broad terms, annual reports and annual reviews may serve to discharge accountability to all stakeholder groups, the interviewees indicated that annual reports, apart from their statutory role, are aimed at upward stakeholders and the public at large (even if not read). In contrast, annual reviews are typically targeted at downward stakeholder groups, and the public as well. Charity websites appear to have a wider target audience and are directed at both upward and downward stakeholders. Increasingly, and perhaps unsurprisingly, the Internet is envisaged as being able to play a progressively more significant role in the communications strategy of charitable organisations, particularly as their 'window'/'shop front'. With reference to annual reports, the emphasis on upward stakeholders is to be expected since, consistent with the views of the ASB (2007), charity supporters (existing and potential funders, which are akin to investors in the private sector) are interested in income generating and spending activities and the financial position of charities. Nevertheless, there is evidence that charities distinguish between different types of funders and supporters, and target specific audiences through different campaigning and communications strategies.

These results have important implications for the various initiatives developed to improve and take forward UK charity accountability. When compared with the findings of Connolly and Dhanani (2006), who examined 2000/01 charity annual reports, the analysis of the 2005/06 annual reports included in this research suggests that accountability appears to have weakened over time, with this research finding lower disclosure levels for a significant proportion of the items examined under each of the three themes of accountability. This was despite an increase in the length of the annual reports over the same period and the precedence of narrative information over financial information. These changes may, in part, be explained by the fact that Connolly and Dhanani focused exclusively on fundraising charities, whereas this research examined both fundraising and non-fundraising charities. Fundraising charities are perhaps, in their drive to raise funds, more likely to account for their activities than non-fundraising charities. A cross-sectional analysis of the fundraising and non-fundraising charities included in this research, however, generated no statistically significant differences between these two groups of charities. An alternative reason for the changes may be that since 2000/01 charities are increasingly using mechanisms in addition to the annual report through which to discharge accountability. The consequence of this is that there is less emphasis on accountability through the annual report.

The analysis of the annual reports and annual reviews indicates that fiduciary and financial managerial accountability-type disclosures are more commonly found in annual reports, while the annual reviews, where available, focus principally on operational managerial accountability-type disclosures. As a result, annual reviews help to fill the operational managerial accountability gap identified in annual reports. Such practices appear to have continued despite similar observations by the Charity Commission (2004a) and its recommendations to provide relevant accountability disclosures in annual reports, even if they appear elsewhere. When asked about these findings, the interviewees opined that the two documents essentially fulfil different functions and, consequently, their content is deliberately different. Specifically, annual reports are considered to be the 'grey' documents that are prepared for statutory purposes and are useful for larger donors. In contrast, annual reviews, which were often considered to be the more important of the two documents, are perceived as the more user-friendly documents that enable charities to 'tell their story'. The difference in function of the two documents appears to stem from two interrelated concepts.

1. A recognition of the different layers of accountability between two distinct upward stakeholder groups (ie between the larger donors and fund providers who, in accordance with the ASB (2007), are likely to understand and interpret not only the financial statements but also the financial performance and position of charities, and the smaller supporters and volunteer groups, who may lack the necessary financial acumen to interpret detailed financial information).

2. A theory of communication that suggests that different types of publications and forms of media should be used for different audiences.

One consequence of the publication of both annual reports and annual reviews is the risk of a conflict between accountability and publicity, which is presumably what the Charity Commission (2004b) was seeking to address by encouraging charities to include accountability-type information in annual reports, even if it was available elsewhere. Specifically, when charities use annual reviews alongside annual reports (or indeed the equivalent content in annual reports, where annual reviews are not produced), the content of the annual reviews often appears to be centred on what will make 'a good story' and 'an interesting read' rather than an objective, transparent account of developments within the organisation during the financial period. Consequently, charities appear to stray from the accountability agenda towards publicity where only the 'good news stories' are relayed.

In relation to operational accountability disclosures in both annual reports and reviews, activities-type information dominates and there is an absence of performance-type information. Indeed, 51% of the charities failed to provide performance-type information. Moreover, across all types of disclosure, the reporting of future or forward-looking information was extremely limited. The implications of this are, first, there may be an absence of systems to capture and subsequently report such information. Although, as the SORP (Charity Commission 2005) only requires charities to disclose this information if it is measured, the disclosure levels do not necessarily reflect limited SORP compliance. Second, the absence of performance-type information and the focus on activities-based information suggests that charities seek to demonstrate the legitimacy of their activities to external stakeholders on the basis of the activities and projects in which they engage, rather than on the reported difference that they have made to the communities that they serve. In other words, charities appear to seek legitimacy for their actions on the basis of the nature of their work (ie charitable activities and projects) rather than from evidence of the resulting societal change. Indeed, the interviews corroborate this latter view, with several of the interviewees acknowledging that there was an information gap both internally, in terms of assessing performance, and externally, in terms of reporting it to external audiences. Nonetheless, there is evidence that some charities are seriously beginning to consider ways in which they may better report the 'impact' of their activities – a development that is to be welcomed.

In relation to website practices, only 4% of the charities did not have their own website. Most websites were professionally developed, with appropriate website presentation and Web page design, features that collectively enabled ease of use. These practices compare favourably with those in the corporate sector and are arguably better than those in the public sector, perhaps reflecting the constructive role that websites play in charity communication. Nonetheless, from a fiduciary perspective, exercised by presenting annual reports and disclosures in relation to governance practices on the Internet, practices are not universal and approximately one-third of the charities failed to upload their annual report onto their website. One possible explanation for this is that charities use the Web pages themselves as a means of communicating with external stakeholders rather than through these formal documents. Although this appeared to be the case in relation to activities-type information, for which almost all charities provided descriptions and discussions, disclosures in relation to governance-type activities were less prevalent. Although interviewees acknowledged the importance of the Internet, given the number of charities that failed to provide a copy of their annual report on their website and the limited managerial accountability information provided, it appears that charities are failing to fully use the potential of the Internet as a mechanism for discharging accountability.

These results have important implications for the various initiatives designed to improve charity accountability and take the sector forward. Specifically, the 2005 SORP (Charity Commission 2005), which raised the profile of the trustees' annual report, appears to have had limited impact on reporting practices. It may be that because the annual reports included in this research relate to financial periods shortly after the publication of the SORP, charities have not had sufficient time to embrace the recommendations fully. Similarly, the ImpACT Coalition and the *Codes of Fundraising Practice*, established by the Institute of Fundraising (2006), were also in their infancy at the time of this research. Indeed, all the interviewees supported the Charity Commission as the regulator of the sector, and acknowledged that compliance with the SORP provided a level of credibility that would have otherwise been absent. Moreover, compliance was perceived as a benefit to both the individual organisations and the sector as a whole, and comparability within financial statements regarded as a useful tool for users. Finally, while accepting that the Guidestar UK and SIRs were not introduced specifically to influence the accountability content of annual reports and annual reviews, as broader drivers of charity accountability, the interviews reinforced the view that they do not influence accountability practice.

The content analysis of the annual reports of the respondent social enterprise organisations (SEOs), and the examination of their websites, suggests that their accountability practices are similar to those of charities. In the annual report, the emphasis is on disclosing the mission and vision of the organisation and the activities undertaken to help achieve these, together with details of good governance practices. Disclosures in relation to managerial accountability are deficient. Website practices support these findings as there is a tendency simply to relay organisational objectives and activities. Nevertheless, the websites, like those of charitable organisations, are well organised and designed, with the information being presented in a succinct and visually attractive manner.

RECOMMENDATIONS

The following recommendations are made in order to develop and promote charity accountability.

Given the need to account to diverse stakeholder groups, and recognising the different communication channels available to do so, the sector further develops its accountability practices, both internally and externally, across each of the three themes of accountability.

Particular attention is given to performance accountability in the context of operational managerial accountability, as the current sources of legitimacy, namely the provision of mission and vision and activities-type information, do not demonstrate charity effectiveness and may also be short lived.

In order to address the paucity of performance accountability information, charities put in place appropriate systems to measure performance formally holistically, and relay the associated information externally. This is consistent with recommendations of the National Audit Office (2001), which urged the Charity Commission to encourage larger charities to provide in their annual reports more information on the efficiency and effectiveness with which they have used charitable funds, so that it was clear what was achieved against what was planned, and to enable the comparison of the financial performance of similar groups of charities.

Although it is often necessary to produce separate documents to meet different purposes and objectives, when producing such formal documents under the banner of the discharging accountability, charities need to ensure that these reports are not merely public relations documents. Although such documents are not necessarily inappropriate, and can help to attract support and funding, they are distinct from accountability exercises and should be treated as such.

From the perspective of the Charity Commission (and OSCR), charity accountability has been framed in the context of the extant SORP, the focus of which has traditionally been on financial statements in annual reports, even though the extant SORP (Charity Commission 2005) places greater prominence and importance on the form and content of the trustees' annual report. Moreover, incremental attempts to develop the accountability agenda further, such as the establishment of Guidestar UK and the introduction of SIRs, appear to have had a limited effect on charity practices. With their more prominent position under the 2006 Charities' Act, the Charity Commission and its Scottish counterpart, OSCR, are ideally placed to revisit the debate more holistically. One option, in the light of the need for different communication channels for different audiences, is to facilitate the development of self-regulation, in partnership with key public-sector umbrella bodies , of the form and content of annual reviews.

Finally, as the economic and political significance of the social enterprise sector continues to expand, SEOs need to formalise their discharge of accountability. SEO accountability could be advanced either through the establishment of a regulatory body akin to the Charity Commission or OSCR, or through umbrella bodies such as the Social Enterprise Coalition or Social Enterprise London.

1. Introduction

1.1 THE CHARITY SECTOR IN THE UNITED KINGDOM

The 'third sector', which may also be referred to as the voluntary sector or not-for-profit (NFP) sector, represents the sphere of social activity undertaken by organisations that are non-profit and non-governmental. It is quite different from either the private or the state sectors in its orientation and motivation, the nature of its activities, its resource availability to engage in these activities, and the manner of its contribution to the public good. The charity sector, which represents the largest segment of the third sector in the United Kingdom (UK), makes a unique and widely recognised contribution to the public good by building social capital in civil society, and it is essential that this role is developed and strengthened. Charitable organisations play a significant and vital role in society, often serving and helping those who are most disadvantaged, marginalised or helpless, and increasingly delivering public services to tackle social exclusion. Some are substantial international organisations while others are small locally based groups run by a number of committed volunteers. A high percentage of charitable work is supported by public donations, and it is important that appropriate safeguards are in place to ensure that such donations are spent appropriately, and that the organisations effectively serve those for whom the funds were intended. As a consequence, the legislative and regulatory environment and circumstances within which charities operate has changed significantly in the last decade in the UK.

The charity sector in the UK is a vast and growing segment of economic activity. For 2007, the Charity Commission (2007a) reported that there were more than 169,000 English and Welsh charities registered with it, with a collective income of over £44.5 billion; this is more than double the £19.44 billion recorded in 1998. In addition, there are 23,806 Scottish charities registered with the Office of the Scottish Charity Regulator (OSCR 2008) of which 355 are also registered with the Charity Commission. These Scottish charities have a combined annual income of approximately £8 billion (excluding those who are also registered with the Charity Commission). There are approximately 4,500 charities with an estimated income of over £600 million in Northern Ireland (NI), with the sector employing 25,000 people (NI Council for Voluntary Action 2005).

Collating data across the UK, the National Council for Voluntary Organisations (2008) noted that the sector now employs over 600,000 people, up 25% over the last decade. Moreover, the public is increasingly engaged in voluntary activities, with 45% of the public volunteering at least once a year and 29% at least once a month. While there is a growing reliance on earned income (50% of total income) within the sector, voluntary income continues to play a significant role (40%) with the remainder consisting of dividend and interest income. Both individuals and the government continue to be important sources of income, contributing 37% and 34% respectively of the total income, with the remainder coming from other sources such as the National Lottery; so the UK government is the largest single donor to the sector. Consequently, since a considerable amount of charitable work is supported by the general public – either as direct givers through donations and/or through voluntary activities, or as indirect givers through taxes – it is critical that there are appropriate systems in place. These systems are required to ensure that public monies are not misappropriated, and are appropriately and effectively spent for the communities that the funds were intended for, but also to sustain the health and longevity of both the sector and the groups and communities that they seek to serve.

In response to the increasing significance of the sector, various regulatory and legislative systems have been introduced across the UK to help monitor and control it. In England and Wales, the Charity Commission is the statutory organisation that regulates charities, and in 2006 a new Charities Act was published. One of the functions of the Charity Commission is to be responsible for guiding the information content of, and financial accounting practices in, charity annual reports. It does this primarily through the Statement of Recommended Practice (SORP) for charities, currently in its fourth iteration. Moreover, under the Charities Act 2006, the Charity Commission has been charged with promoting and improving accountability within the sector, together with raising public trust and confidence. The OSCR, the regulatory body for Scottish charities, is also concerned with guiding and advising the sector. The situation for Northern Ireland (NI) is at present somewhat different, and charities and trustees are not required to submit annual reports or accounts except when claiming tax exemptions or under investigation by the Department for Social Development. This situation is, however, expected to change by 2010/11 when NI should be brought into line with the rest of the UK.

1.2 CONTRIBUTION OF THE STUDY

Accountability has been defined as justifying what has been done, explaining one's actions and being responsible to someone or for some event (Jackson 1982; Government Accounting Standards Board 1987; HarperCollins 1993), and the debate over how, and to whom, organisations are accountable has gained momentum in both the for-profit and NFP sectors in recent years. Accountability has been studied from various perspectives, including both stakeholder and legitimacy theory, and charitable organisations are believed to be accountable to a number of different stakeholder groups (Herzlinger 1996; Accounting Standards Board (ASB) 2007). These are commonly classified as 'upward' and 'downward' stakeholders (Ebrahim 2003a). Upward stakeholders are believed to have the power and authority to influence the work and practices of the organisations; they comprise donors, funders and volunteers who support the respective organisations; government and oversight agencies; and the public at large. In contrast, downward stakeholders are the beneficiary groups and clients who use an organisation's services, and who may lack a voice to influence organisational practices. While the ASB (2007) views the defining class of stakeholders as funders and financial supporters (ie upward stakeholders), accounting to all stakeholder groups is important to enable charities to attain legitimacy for their objectives and activities with all relevant stakeholder groups and, in turn, promote a prosperous and healthier sector.

Charities may engage with their external stakeholders through a variety of different channels (Ebrahim 2003a), including annual reports, annual reviews, websites and Summary Information Returns (SIRs). The statutory annual report is 'the primary means with which management of an entity fulfils its reporting responsibility' (Accounting Standards Committee 1975: 16). In addition to providing detailed financial statements, it also includes narrative information whereby organisations can discharge accountability to external stakeholders. Some charities also voluntarily produce annual reviews, which are often perceived as a more flexible and user-friendly means of discharging accountability. The Internet is becoming an increasingly popular and important communication tool (Debreceny and Gray 1999; Lymer 1999), and with growing access is likely to become an efficient and effective way of reaching wider audiences.

There is widespread acceptance that charities have a duty to discharge accountability to their external stakeholders, and this research seeks to complement and extend previous research on the subject. Its specific objectives are to:

- examine charities' reporting patterns in the annual reports and annual reviews, and assess the extent to which various recent initiatives such as the 2005 SORP (Charity Commission 2005) and SIRs have led to improved charity accountability

- analyse the role of the website as a basis for discharging accountability information, and

- seek the views of key charity personnel in relation to the three mechanisms with which charities discharge accountability (annual reports, annual reviews and the Internet), to enable a more detailed understanding of external accountability practices and mechanisms used.

In addition, the research conducts a pilot study into the accountability practices of social enterprise organisations, a small but growing part of the third sector.

1.3 REPORT STRUCTURE

The report is structured as follows. Chapter 2 presents the literature review, which examines both the concept of accountability in the context of NFP organisations and previous research into organisational accountability through reporting mechanisms, such as the annual report and the Internet. Chapter 3 describes the research methods adopted to assess the patterns of reporting in the charity annual reports, annual reviews and websites. Chapters 4 to 6 present the results of the research. Specifically, Chapters 4 and 5 report the findings from the analysis of the charity annual reports and annual reviews and websites respectively, while Chapter 6 reflects on the interviews with senior charity personnel. Finally, Chapter 7 summarises the main findings and identifies areas for future research.

Many library-based sources were used in conducting this research, and these are reflected in the extensive references provided in the report. The authors relied on numerous sources of information, many of which could be accessed via the Internet. Some of those that the authors found particularly useful are presented in Appendix A.

2. Literature review

2.1 INTRODUCTION

The objectives of this chapter are two-fold: first, to contextualise the discharge of accountability for charitable organisations; and second, to present the results of previous studies that have examined organisational accountability. In order to provide a comprehensive framework within which to appreciate the basis and results of this research, this chapter includes previous research into private and public sector accountability together with that relating to charitable organisations.

2.2 CHARITY ACCOUNTABILITY IN CONTEXT

Charity reporting, and indeed reporting by other not-for-profit organisations (NFPOs), has traditionally been based on the principles of the decision usefulness model. This model has been largely borrowed from the private sector (see for example, American Institute of Certified Public Accountants 1973; Financial Accounting Standards Board 1980). Under this regime, reporting practices have been motivated by financial and capitalistic considerations, with an emphasis on the information needs of existing and potential investors, lenders and other suppliers of capital (Coy et al. 2001). This focus was also central to the work of Bird and Morgan-Jones (1981), research that initiated the formal development of charity reporting practices through the publication of *Statement of Recommended Practice (SORP) 2 Accounting by Charities* (Accounting Standards Committee (ASC) 1988).

More recently, while accepting the role of accounting information against the backdrop of the decision usefulness model, a second strand of literature has emphasised the accountability paradigm as the basis for organisational reporting (for example, Charity Commission 2000; Coy et al. 2001). This takes a broader perspective that goes beyond financial considerations and the traditional maximisation of returns for shareholders; it recognises the social, political and wider economic interests of reporting organisations and acknowledges stakeholders other than financial investors.

For charities and other NFPOs, the accountability paradigm arguably takes precedence over the decision usefulness model. Commercial organisations have a direct economic agenda and an acknowledged bottom line, measured in financial terms, that dominates all other forms of performance and accountability. In contrast, charitable organisations broadly lack such an economic motive and their bottom line is defined in social terms – that is, how effectively they meet the needs of their beneficiaries and how they gain public support for their cause (Pratten 2004).

The role of accountability in corporate and other organisations is fast gaining momentum and a number of writers have attempted to explore this concept in different ways, and a range of definitions of accountability have been offered. Jackson (1982) and the Government Accounting Standards Board (1987) described accountability as being responsible to someone or for some event, and as explaining one's actions and justifying what has been done. Goodin (2003) identified and distinguished between three broad states of affairs for which someone may be (made) responsible and accountable: their intentions (what their motives were); their actions (what they did); and their results (what the outcomes of their actions were). For charities, this translates into accounting for: the mission and vision of the organisations and the objectives that they are working towards; the actual activities and programmes that they undertake to fulfil their vision; and finally, addressing the extent to which they have achieved their mission and objectives. Brody (2001) and Taylor and Rosair (2000) added that NFPOs, including charities, also need to report on whether appropriate systems and measures are in place to ensure financial probity. They classified accountability into two types: fiduciary accountability, to emphasise probity, compliance, control and good governance practices; and managerial accountability, to reflect organisational effectiveness and impact on society (ie Goodin's perspective).

The debate on third-sector accountability in both the practitioner and the academic arena also asserts its critical importance in promoting the sector and ensuring its longevity. Specifically, accountability is believed to enable organisations to attain legitimacy among their diverse stakeholder groups and promote organisational learning and development. In accordance with the Accounting Standards Board (ASB) (2007) guidance, charities need to account to their (potential) funders and financial supporters, both small and large, for their financial probity and efficiency and the impact that they have on the communities they intend to serve. This enables organisations to demonstrate their legitimacy to their upward stakeholders by using the evidence of organisational successes (Slim 2002; Ebrahim 2003a).

Theoretically, it could be argued that the sheer altruistic motive of charities avoids the need for charitable organisations to account because, by acting for the public good, they can be assumed to operate honestly and optimally to maximise organisational impact. In practice, however, this assumption may not necessarily hold or be believed to hold, and the demands of accountability become validated. In the UK, research indicates that public confidence in the sector is moderate (Opinion Leader Research 2005), and while the sector still enjoys more confidence than others, it could certainly do better (Plowden 2004; Pratten 2004). Unsurprisingly, charity funds are being placed under increasing scrutiny, and the need to account in order to reinstate and maintain public trust and confidence, either voluntarily or on demand, is being increasingly emphasised (Beattie et al. 2002; Ebrahim 2003a; Home Office 2003). In accordance with the ASB (2007) view, charity supporters and funders are similar to shareholders of commercial organisations, although they are unlikely to monitor charitable organisations as closely as shareholders of commercial organisations may do. However, they are also more likely to terminate their support if their trust and confidence wane, as their personal welfare is not necessarily dependent upon this support. Thus, accountability and transparency are critical attributes for charities, to gain and maintain public/funder support and trust.

The discharge of accountability also enables NFPOs to achieve legitimacy with their downward stakeholders (ie the beneficiary groups and clients of the organisations). There is a greater disparity of power between charitable organisations and their downward stakeholders than between charities and their upward stakeholders. Nonetheless, this power should not be exercised to avoid accounting to these stakeholder groups, but rather, recognising the latter's position of weakness, charities as value-driven organisations should choose to account to/take account of them. Charitable organisations can legitimise their activities and operations by accounting to, and for, their downward stakeholders. Moreover, such activities can enhance other organisational credentials such as credibility, reputation, trust and integrity, all of which will in turn engender the trust and support of their beneficiaries (Slim 2002), and add legitimacy to their activities.

As a subsidiary benefit, appropriate systems that enable organisations to account to their stakeholders will also facilitate an improvement in organisational performance and learning (Hyndman and Anderson 1995; Brown and Moore 2001; Blagescu et al. 2006). For example, an organisation that is publicly accountable for its actions and responsibilities should be under greater compulsion to improve its performance in demonstrating sound organisational activity and organisational success than one with weak systems of accountability, where there may be a limited incentive for managers to manage their organisations' funds efficiently and effectively (Hyndman and Anderson 1995). In relation to organisational learning, Brown and Moore (2001) explained that organisational successes and (perhaps more so) failures offer extensive opportunities for learning and development, and that sound information is essential to facilitate the learning process. Accountability systems that methodically measure success and failure and produce the relevant information are central, therefore, to organisational learning.

The literature on NFP accountability, including charity accountability, identifies a number of different mechanisms by which organisations may discharge their accountability to their stakeholders. These include reporting and disclosure practices, social auditing and performance evaluation systems (Ebrahim 2003b), but the focus of this research is on the first two categories only. Through formal reporting mechanisms such as the statutory annual report and additional voluntary reports such as annual reviews, charities can discharge their accountability to their stakeholders with respect to the accountability attributes identified by Brody (2001) and Goodin (2003). In addition, the Internet has become a vital communication tool with which organisations can reach a wide audience in an efficient and effective manner.

2.3 ACCOUNTABILITY THROUGH DISCLOSURE PRACTICES AND REPORTS

By recognising both the need to discharge accountability and the central role of information communication in so doing, the question that arises is: What constitutes relevant and appropriate accountability information? In the context of the public sector, Boyne et al. (2002) note that, while many studies focus on the need to account, there is a lack of studies that specify in detail the type of information disclosures that are required. Earlier literature on accountability in NFPOs emphasised the role of financial accountability in the form of financial accounting to demonstrate non-misappropriation of funds. Accountability is more than just accounting, however widely it is defined (Jones and Pendlebury 1996). To accept that accountability involves being accountable for one's actions, outcomes and responsibilities and/or taking account of stakeholder views, introduces eventualities beyond those that financial statements can capture. This is particularly the case in the context of NFPOs, which lack a solitary profit motive, because their financial statements cannot convey organisational success or failure to stakeholders; at best, such statements serve to fulfil the stewardship function by confirming financial probity. To discharge accountability more comprehensively, organisations need to use narrative reports through which they can relay their achievements and future plans in the context of their objectives, activities and strategies (Boyne and Law 1991; Torres and Pina 2003; Charity Commission 2005), and arguably these narratives play a more central role in charity disclosures than do traditional financial statements. As the Charity Commission (2005: 5) explains:

> *Charity accounts alone do not meet all the information needs of users, who will usually have to supplement the information they obtain from the accounts with information from other sources. Accounts also have inherent limitations in terms of their ability to reflect the full impact of transactions or activities undertaken and do not provide information on matters such as structures, governance, and management arrangements adopted by a charity. The accounts of a charity cannot alone easily portray what the charity has done (its outputs) or achieved (its outcomes) or what difference it has made (impact). Thus is mainly because many of these areas cannot be measured in monetary terms: indeed some areas are difficult to measure with any numbers at all. The Trustees' Annual Report provides the opportunity for charity trustees to explain the areas that the accounts do not explain.*

Based on previous literature (for example, Hyndman 1990; Connolly and Hyndman 2003) and the recommendations of the Charity Commission (2005), together with the accountability classification system developed by Taylor and Rosair (2000) and Brody (2001), accountability may be discharged by charities in both fiduciary and managerial terms.

Fiduciary accountability emphasises probity, compliance, control and good governance to assure organisational stakeholders that the funds, assets and future of the organisation are safeguarded (Taylor and Rosair 2000; Brody 2001). In this regard, it is analogous to the stewardship function that the financial accounting of NFPOs fulfils, whereby there is confirmation and, in turn, confidence that the funds and assets of the organisation are not misappropriated.

Managerial accountability, on the other hand, refers to managerial effectiveness and the impact of the organisation on society (ie organisational success). Based on the Charity Commission's view that charities should provide a review of their financial position and the impact that they have had on societal development, managerial accountability can be further separated into managerial success in financial terms and in non-financial, operational/societal terms.

Financial managerial accountability looks at managerial success in relation to generating funds and using them appropriately to secure the future of the organisation and to optimise its impact.

Non-financial, operational managerial accountability measures the organisation's impact in relation to the charitable objects for which it was set up.

Thus, charity accountability can be categorised as: fiduciary accountability, financial managerial accountability and operational managerial accountability (See Table 2.1).

In relation to fiduciary accountability, the 2005 SORP (Charity Commission 2005) recommends that charities should provide disclosures in relation to:

- their organisation structure, including governance procedures and how key decisions are made
- their policies in relation to trustee selection and appointment, induction and training, and investment practice and reserves, and
- a risk management statement.

Such disclosures confirm that appropriate systems are in place to ensure that organisational funds are appropriately managed, that major risks have been reviewed and procedures put in place to manage them.

With respect to financial managerial accountability, the Charity Commission (2005) explains that the aim should be to enable readers to understand how the numerical parts of a charity's accounts relate to its organisational structure and activities. Charities should provide a review of their financial position (ie comment on the year's income and expenditure levels and surplus/deficit levels) and financial performance in relation to investment and reserves policies. Moreover, for those organisations engaged in fundraising and trading activities, financial performance is measurable in terms of fundraising efficiency (Hyndman and McKillop 1999) and return on investment/turnover, which essentially capture the efficiency with which public funds have been raised. Overall charitable performance can be judged in terms of the efficiency with which the charitable funds have been used (Khumawala and Gordon 1997; Hyndman and McKillop 1999; Charity Commission 2005).

Operational managerial accountability assesses direct charitable impact, and the Charity Commission (2005) explains that charity reports should enable readers to understand the aims and objectives set by the charity and the main strategies and activities undertaken to achieve them. Accordingly, charities should summarise their objects as set out in their governing documents, explain the main objectives for the period under review and detail the significant activities that contributed to the achievement of the stated objectives. Further, where charities make significant use of volunteers, they should provide readers with sufficient information to understand the role and contribution of the volunteers and seek to quantify this contribution in some manner (Charity Finance Directors' Group (CFDG) 2003). In relation to organisational achievements, charity reports should provide a review of activities and assess actual performance against objectives set (both qualitatively and quantitatively) to enable readers to understand and assess the achievements of the organisations.

Performance may be viewed in accordance with the three-stage production model that comprises organisational inputs, outputs and results, and organisational efficiency and effectiveness. Inputs refer to the resources used to provide a product or service; outputs are the immediate products or services generated by the organisation (for example, the number of children fed or number of individuals trained); while results represent the impact of the product or service on society (for example, a healthier population or safer roads). Organisational efficiency is the ratio of outputs to inputs, or the amount of input per unit of output; and effectiveness is concerned with the relationship between the outputs or results of an organisation and its objectives.

Further, in relation to managerial accountability disclosures, charities should provide additional comparative information such as information pertaining to the previous year to enable stakeholders to place the results in context. Although comparison of performance between charities is believed to encourage an improvement in organisational performance, it can be misleading, because charity ratios may differ significantly between organisations, being based on actual activities and areas of need rather than on managerial effectiveness. Framing the performance of an organisation within its own context is valuable for both the readers and the organisation. Moreover, in accordance with Jackson's (1982) and Patton's (1992) definitions of accountability, and as recommended by the Charity Commission (2005) in relation to disclosures about deficit levels, charities should be encouraged not only to report on their actions and performance, but also to provide justifications and explanations for these actions and performance, together with their intentions for the future.

Table 2.1: Accountability disclosures: fiduciary accountability and managerial accountability

Themes of accountability	Associated disclosure items
Fiduciary accountability emphasises probity, compliance, control and good governance, to assure organisational stakeholders that the funds, assets and future of the organisation are safeguarded.	Organisation structure, including managerial structures and how key decisions are made Trustee selection, appointment, induction and training policies Reserves policy Financial investment policy Risk management statement
Financial managerial accountability addresses organisational performance in financial terms, that is, managerial success at generating and using funds. To enhance performance accountability and information, dimensions include: • comparison of actual performance with targets • objectives, previous year results or those of competitor organisations • explanations/justifications for activities and performance, and • future intentions and information.	Financial position/stability (income, expenditure and surplus/deficit levels) Financial performance of investments and reserves policies Fundraising efficiency Overall organisational efficiency
Operational managerial accountability addresses performance in terms of the impact of the organisation on society. To enhance performance accountability, information similar to that stated above applies.	Organisational aims and objectives Organisational activities Direct charitable activities (inputs, with separate attention to volunteers, outputs, results, efficiency and effectiveness)

Concerning communication via the Internet, Shepherd et al. (2001) explain that while the Internet may have changed the way we communicate, the ground-rules for communication have not changed. Consequently, organisations need to determine the objectives of the communication and identify target audiences, and then develop the messages of communication based on these, taking into consideration the expectations and concerns of the various audiences. Two key aspects that stem from this process for Internet reporting are: (i) the website content; and (ii) the presentation and usability of the material (Xiao et al. 2002). In addition, from an accountability perspective, the availability of accountability documents is a consideration and, according to Kovach et al. (2003), best online accountability practice should:

- describe objectives, targets and activities
- evaluate the main activities
- identify the key members of the organisation, including executives
- state the number of votes each member holds
- provide a meaningful description of key decision-making bodies
- make available agendas, draft papers and minutes of both governing and executive body meetings
- give the disclosure policy for documents, including reasons for non-disclosure
- provide the annual report, together with audited financial information.

2.4 DRIVERS OF CHARITY ACCOUNTABILITY IN THE UNITED KINGDOM

There have been a number of both regulatory and voluntary initiatives to promote and encourage accountability by charities. The Strategy Unit (2002) published *Private Action, Public Benefit: a Review of Charities and the Wider Not-for-profit Sector*, and called for the sector to develop greater accountability and transparency to build public trust and confidence. The Home Office (2003) responded with *Charities and Not for Profits: A Modern Legal Framework: The Government's Response to Private Action – Public Benefit*, in which it made a number of recommendations, several of which have been implemented. These include the following.

- The publication of the CFDG's report *Inputs Matter* (2003), which seeks to improve charitable transparency through financial reporting and also recommends that a voluntary code of practice be agreed in relation to the content of annual reviews.
- The publication of the 2005 SORP (Charity Commission 2005), which places greater emphasis on the trustees' annual report, promotes the importance of narrative information as part of the annual report, and provides detailed and systematic guidance on how this can be achieved.
- The publication of the Charities Act 2006, which emphasises the need to promote and encourage accountability within the sector to raise its public profile, and nominates the Charity Commission to oversee this development.
- The introduction of Summary Information Returns in 2005 for larger charities in England and Wales as part their annual return to the Charity Commission, in order to provide the public with easy access to relevant, useful and comparable information about charities.

Additional developments and practices aimed at promoting accountability include the following.

- The establishment of a voluntary code of conduct by the National Council for Voluntary Organisations (2005), the ImpACT (Improving Accountability, Clarity and Transparency) Coalition, to encourage members to enhance the sector's transparency and accountability practices and, in turn, improve public confidence and trust.
- The development of a voluntary code of fundraising practice by the Institute of Fundraising (2006) to promote the highest standards in UK fundraising activities, following negative media publicity in this area.
- The formation of Guidestar UK, an independent charity supported by the Charity Commission, to enable charities to disseminate relevant accountability information to external stakeholders via the Internet.
- Joint sponsorship, by the Institute of Chartered Accountants in England and Wales and the Charities Aid Foundation, of awards in relation to reporting practices in the charity sector. Since 2003, the Charities' Online Accounts Award (COAA) has replaced the Charities' Annual Report and Accounts Award (CARAA). Whereas the objective of the CARAA was to encourage the highest standards in financial reporting based on content, financial accuracy and design of annual accounts, the COAA emphasises online information that demonstrates the highest levels of accuracy and transparency and effective communication with beneficiaries, donors and other stakeholders.

The maintenance of public confidence and trust underpins the work and success of the charity sector. The Charity Commission and the Office of the Scottish Charity Regulator (OSCR), as the joint SORP-making body, consider the SORP, and the reporting framework it provides, to be an essential component of accountability necessary for maintaining public trust and confidence through proportionate and transparent reporting. Responsibility for reviewing, consulting upon and revising the SORP is vested in the Charity Commission and OSCR by the ASB. In making revisions, the Charity Commission and OSCR are expected to act on the recommendations of an expert committee (ie the SORP Committee). At the November 2007 SORP Committee meeting (Charity Commission 2007b), it was agreed to begin a programme to learn from stakeholders (including funders, financial supporters, charities, analysts and media, auditors and accounting professionals, the public and charity beneficiaries) how a new SORP could better reflect their needs in reporting and accounting. The main drivers for change were:

- criticisms of the 2005 SORP (Charity Commission 2005), including its length and complexity, its onerous disclosure requirements, and lack of applicability to smaller charities

- recent changes in both company and charity law and regulation

- developments in UK Generally Accepted Accounting Principles (GAAP), including recommendations for a more extensive operating and financial review, proposals for changes to the accounting treatment of heritage assets and the publication of the Interpretation for Public Benefit Entities of the Statement of Principles for Financial Reporting (the Interpretation) (ASB 2007)

- the anticipated convergence of UK GAAP with International Financial Reporting Standards.

2.5 PREVIOUS EMPIRICAL ACCOUNTABILITY RESEARCH: FOR-PROFIT ORGANISATIONS

Previous research into corporate public disclosure is extensive and can be classified in a number of different ways, including a focus on financial and non-financial disclosures and/or mandatory and non-mandatory (voluntary) disclosures. This research has typically focused on the information accompanying the financial statements in annual reports and, on some occasions, the notes supplementing the financial statements. Common themes of inquiry are:

- voluntary disclosures

- intellectual capital (IC) disclosures

- corporate social responsibility (CSR) disclosures.

Studies on voluntary disclosure practices have sought to identify the additional information that companies choose to publish alongside the information requirements in accordance with the law, and stock exchange and professional regulations (Marston and Shrives 1991). Those on IC have sought to capture the level of voluntary disclosures in relation to IC to address the increasing significance of intangible, knowledge-based factors that drive business performance.

In relation to CSR, there has been increasing pressure on firms over the last decade to engage in activities beyond those associated with maximising profits and firm value for investors. Research inquiring into CSR disclosures, both in specific industries and across different countries, has sought to determine the type of information provided and the motivations behind such disclosures. The disclosures are often voluntary, and guided by organisations such as the Global Reporting Initiative (GRI) and the Institute of Social and Ethical AccountAbility. They typically address human resources, the environment, the community and customers. Considering CSR disclosures from a legitimacy perspective, companies may strategically engage in CSR reporting to raise corporate reputation and legitimise their activities to the public and other interested stakeholders. Indeed, companies do appear to exhibit selective reporting practices that result in a lack of completeness in reporting, and engage in impression-management techniques in which the disclosures highlight positive environmental actions and obfuscate negative environmental effects (Neu et al. 1998; Adams 2004). Proponents of CSR believe that it can be used as a strategic tool to gain competitive advantage, for example, by attracting higher-calibre employees or increasing employee motivation, morale and commitment (Branco and Rodrigues 2006). From a reporting perspective, however, it is suggested that true accountability can only be achieved through measures such as mandatory reporting guidelines, better developed audit guidelines, and mandatory audit requirements for larger organisations (Adams 2004).

2.6 PREVIOUS EMPIRICAL ACCOUNTABILITY RESEARCH: PUBLIC SECTOR ORGANISATIONS

Public sector organisations, which like charities do not have a profit motive, may discharge accountability through financial statements to their constituents. Hyndman and Anderson (1995) examined the extent of reporting of performance accountability in the annual reports of executive agencies and how this changed over time from 1990–94. The model used was based on a three-stage classification system capturing inputs, outputs and results (the component parts of performance), complemented with measures of efficiency and effectiveness that were referred to as the higher measures of performance. Hyndman and Anderson (1995) report that while reporting practices had improved over time, there was a dearth in measures of efficiency and effectiveness: 43% (92%) of agencies failed to report just one measure of efficiency (effectiveness) in their 1993/94 annual reports, with non-disclosure for earlier years being even more pronounced. The authors conclude that there was an overall inadequacy of performance accountability, despite an explicit call for agencies to publish information on performance and focused guidance from central government, although the improvements over time suggested an evolution of performance reporting.

2.7 PREVIOUS EMPIRICAL ACCOUNTABILITY RESEARCH: CHARITABLE ORGANISATIONS

Research into the discharge of accountability by charities has focused on the annual report and financial statements, and can be broadly divided into two strands: studies that examine the information provided in the 'financial statements'; and those that examine disclosures in the 'annual report'. We now consider each of these.

Charity financial statements

The work of Bird and Morgan-Jones (1981) highlights the immense variety in charity accounting practices and has brought the issue of charity accounting to the fore. A major thrust of the conclusions of the research is that such a scenario is confusing, undermines confidence in the charity sector and possibly inhibits its potential growth. Ultimately, this work, together with reports by the National Audit Office (1987) and Sir Philip Woodfield (Woodfield Report 1987) on the supervision and regulation of charities, contributed to the publication of the original SORP 2 Accounting by Charities (ASC 1988). A number of studies sought to assess the impact of the original SORP (Ashford 1989; Gambling et al. 1990; Hines and Jones 1992; Williams and Palmer 1998), and overall, these studies conclude that the impact of the original SORP was limited. In some charities it appeared that the SORP was being ignored, while key individuals in others were not even aware of its existence. While Gambling et al. (1990) explain that poor compliance arose because the SORP reflected the opinions of the accounting profession about charity accounting rather than those of the charities, Hines and Jones attribute it to the non-mandatory nature of the SORP.

In response to criticisms with respect to the weaknesses of, and non-compliance with, the original SORP (ASC 1988), a revised SORP (Charity Accounting Review Committee 1995) was published. Connolly and Hyndman (2000) conducted an empirical analysis of the financial statements of the top 100 UK fundraising charities issued both before (1994/95) and after (1996/97) the publication of the revised SORP. The authors conclude that while accounting by large charities had improved significantly since the 1980s (where improvement was seen in terms of increasing compliance with recommended practice), it would take time for the new recommendations contained in the revised SORP to be adopted. Connolly and Hyndman (2003), comparing the reporting practices of Irish charities with those of English and Welsh charities, report extensive diversity in practices among Irish charities (which are not subject to extensive regulation – see Connolly and Hyndman (2003), Chapter 1) and call for regulation similar to that by the Charity Commission.

Charity annual reports

Based upon an analysis of charity annual reports and a survey of charity contributors, Hyndman (1990) sought to identify the information that is routinely made available to contributors through the annual report and the most important information sought by them. Hyndman finds that while audited financial statements dominated reporting by charities, contributors viewed other information, particularly that relating to performance, as most important. In a related study, Hyndman (1991) investigated whether the identified 'relevance gap', that is, the difference between the information disclosed by charities in their annual reports (mainly audited financial statement information) and the information required by contributors (mainly performance-related information), was due to a lack of awareness on the part of the providers of the information. Based on a survey of contributor needs, and charity personnel and auditor views, the research discounts the possibility that the 'relevance gap' arises because the providers of information are unaware of the information needs of contributors. Rather, it suggests that there may be a general complacency among the providers of information with respect to the adequacy of existing reporting procedures, given that they know what is important but choose not to disclose, and limited motivation to improve accountability to contributors. More recently, the Charity Commission (2004b) conducted an independent telephone survey of 1,000 members of the public to investigate their views on the information made available by charities. The results confirm that the public regard transparency and accountability as essential, and that information about the areas of activity on which charities spend their money was considered to be the most important (85%), closely followed by information on what they had achieved (ie impact on society) (84%).

Buchheit and Parsons (2006) conducted an experimental, behavioural study to investigate the role of service efforts and accomplishments (SEA) information (equivalent to the achievements and performance information in the UK) in the donation process for individual givers. Using final year undergraduate students, SEA information was included as part of a typical funding request to a select group of participants, while the control sample was supplied only with the funding request. The study finds that potential donors believe that fundraising requests containing SEA disclosures are more informative, and that inclusion of the information increased the quality perception of the organisation. While inclusion of the SEA information increased the percentage of donors who claimed that they would donate, it did not translate into increased actual giving among the sample participants. Moreover, the SEA information did not encourage donors to seek further financial information about the organisations, although for those who did seek further information, the programme spending ratio played an important role.

Examining disclosure patterns in annual reports, Connolly and Hyndman (2003) focused on the inclusion of three specific attributes of accountability in annual reports, namely background information, performance information and information pertaining to future plans. The authors report that although a large proportion of charities provided background information, information about performance and future plans was often lacking. They conclude that there has been little change since the Hyndman (1990) study, and that charities have failed to discharge accountability to external stakeholders comprehensively (which is likely to disadvantage users of charity reports).

Extending the work of Connolly and Hyndman (2003), the Charity Commission (2004b) and Connolly and Dhanani (2006) consider a variety of additional attributes of charity accountability. While focusing principally on compliance with the charity SORP, but also best-practice disclosures (ie those not required by the charity SORP), the Charity Commission has examined the annual reports and annual reviews of 200 of the largest UK charities. With regard to reporting on required disclosures in the annual report, the Charity Commission finds that disclosures in relation to trustees, the statutory objects of the charity, charity mission and aims, risk management, reserves and achievements are provided readily and in good detail. Items not frequently included relate to investment powers and investment performance, explanations of grant-making policies, and the role played by volunteers. In relation to the annual review, the Charity Commission reports that their style, structure and content were much more attractive and user-friendly than those of the annual reports. The Charity Commission concludes that, for a significant number of charities, poor disclosure of required information in the annual report (particularly about activities, achievements and results) is compensated by presentation of these details in the annual review. Nonetheless, the Charity Commission explains that, while it is encouraging that the relevant information is being provided, annual reviews are not an appropriate substitute for annual reports. Overall, the results suggest that, while a number of charities demonstrate sound behaviour, the level of transparency and accountability is not satisfactory among the group as a whole and that too many charities do not meet the basic requirements of best practice.

Connolly and Dhanani (2006), examining the narrative content of the 2000/01 annual reports for the top 100 fundraising charities in the UK, focus on accountability disclosures in relation to organisational structure and policies, reviews of financial information and overall performance and achievements. They find that charities more readily provide disclosures in relation to fiduciary accountability than in relation to managerial accountability. Specifically, charities are more likely to disclose information about policies, risk management and organisational structure than information relating to organisational efficiency and achievements and plans for the future. Subsequent research by Jetty and Beattie (2009) also finds limited disclosure of performance and forward-looking information. Connolly and Dhanani (2006) also note that disclosure practices are influenced by charity size and performance as larger charities, unsurprisingly, have more extensive disclosures. On the basis of the impression-management hypothesis, one would expect the sample charities to be more inclined to disclose positive information than negative information.

Kreander et al. (2006) examined the investment policies of charitable organisations, explaining that the way in which charity funds are invested is an important aspect of charity accountability. The authors report that:

- 55% of the organisations surveyed have a written ethical investment policy
- the most common form of ethical investment is negative screening (51%)
- charities tend to delegate engagement with companies to fund managers, and
- only a proportion disclose their screening methods in their annual reports.

Examining differences in the perceived accountability relationships between fundraising and non-fundraising charities, Kreander et al. (2006) find that the former engage more frequently in accountability-type disclosures, such as goals and effectiveness, and make more references to their stakeholders than their non-fundraising counterparts. Overall, Kreander et al. conclude that charities could improve their practices by:

- aligning their investment policies with their charitable objectives
- engaging directly with companies and voting their shares
- improving disclosures of investment policies in their annual reports, and
- increasing stakeholder dialogue, and reporting on this in their annual reports.

Finally, the Charity Commission (2007c) inspected the annual reports of 647 charities of different sizes for compliance with the 2005 SORP (Charity Commission 2005). Annual reports are assessed as being ‘good’, ‘adequate’ or ‘poor’ where: ‘good’ is defined as those that contain all key information and policy notes, together with a performance assessment for the year, and are transparent and promotional. ‘Adequate’ refers to those that contain all key information and policy notes but lack transparency; and ‘poor’ represents those that lack key information/policy notes. The Charity Commission (2007c) reports that one-third and 23% of the reports are rated good and poor respectively, with the problems being much more apparent at lower income levels (although the annual reports of 8% of charities with an income of over £5 million are also deemed to be poor). Information and policy details frequently omitted include disclosures in relation to reserves levels, recruitment of trustees and investment performance. Overall, it is concluded that it was disappointing that a significant number of the annual reports failed to comply with the 2005 SORP.

2.8 INTERNET DISCLOSURES

Until now, while there has been very little research into the Internet practices of charitable organisations, the situation is very different with respect to private sector organisations. Studies of Internet reporting in the corporate sector commenced in the late 1990s (for example, Flynn and Gowthorpe 1997; Lymer 1997; Ashbaugh et al. 1999), and broadly find that website use is prevalent globally. Corporate practices are, however, not universal and while some companies have their own websites, others do not. Nevertheless, even in the early days of the Internet, there was evidence of innovative practices: companies provided audio presentations of the chairman's address to shareholders; video presentations of the annual general meeting; and multiple GAAP annual reports (Gowthorpe and Flynn 1997). Since then, the use of the Internet for corporate reporting has grown exponentially, and Gowthorpe (2004) opines that, theoretically, the Internet permits radical developments in corporate financial reporting, with the possibility that genuine two-way communication will take place between a company and its stakeholders. Evidence from a series of interviews that he conducted, however, indicates that the emphasis of information provision remains on a 'push' notion (information determined by corporate management is pushed out into the waiting world) rather than a 'pull' one (users specify the type of information they would like to be able to draw down).

Based on the premise that access to relevant, timely information about what an organisation is doing is vital to ensure that both internal and external stakeholders are able to hold an organisation to account, Kovach et al. (2003) used access to online information as a proxy for an organisation's overall transparency. The authors conclude that:

- non-governmental organisations (NGOs) provide less online information about their activities than inter-governmental organisations and transnational corporations
- all the groups limit access to information about their decision-making processes, and
- NGOs often fail to provide an annual report, information on how money is being spent, and details of performance against aims.

Laswad et al. (2005) examined the voluntary disclosure of financial information on the Internet by local authorities in New Zealand, together with the effect of six related organisational variables on the decision to use the Internet, namely political competition, size, leverage, municipal wealth, press visibility and type of local authority. Having examined 61 of 84 local authorities that maintained active websites, Laswad et al. conclude that financial leverage, municipal wealth, press visibility and council type had influenced organisations' decisions to present voluntary information on the Internet, and that size and level of political competition are not relevant factors.

Torres et al. (2006) examined the effect of e-government on governmental accountability in 15 countries of the European Union by analysing the websites of 318 local and regional government units. Specifically, the study compares the development and sophistication of the websites and test the impact of six contextual and organisational factors on governmental practices. Website development is based on four different dimensions: transparency, which measures the extent to which organisations reveal information about their international practices, policies and processes; interactivity, which covers the level of interactive opportunities on the websites; usability, which addresses the ease with which users can access information and navigate the Web portal; and, finally, site maturity, which embraces aspects such as provision of audio and video material that demonstrates Web sophistication. The results of the research indicate that websites are used principally as a vehicle to disseminate information, and that in only a few instances show clear signs of openness to encourage government–citizen dialogue. Population size, the style of public administration and the presence of e-central government and e-commerce appear to influence local and regional practices. Overall, through its emphasis on information disclosures, e-government appears to mimic private sector e-commerce, and is not used to its full potential to contribute to the modernisation of government.

2.9 CONCLUSION

Accountability is a principal mechanism with which charitable organisations can achieve legitimacy for their activities with upward stakeholders, including funders and donors, the key audiences identified by the ASB (2007), and downward stakeholders. Systems of accountability can promote organisational learning and development and, in turn, an improvement in performance. Information and disclosure reports are a key vehicle with which organisations may discharge accountability, and while recognising the role of traditional financial statements in fulfilling a stewardship function, narrative disclosures play a critical role in this discharge process. Based on prior research, in particular the accountability classification systems developed by Taylor and Rosair (2000), Brody (2001), and the Charity Commission (2005) recommendations, three themes of accountability on which organisations should report can be developed. These are fiduciary accountability, managerial financial accountability and managerial operational accountability.

Previous research into charity accountability indicates a wide variation in practice, with a significant proportion of organisations not meeting the basic requirements of best practice. Moreover, charities appear to provide disclosures more readily on fiduciary accountability and managerial accountability than on operational accountability. Finally, with the exception of Kovach et al.'s study (2003) that looked at the website accountability practices of a small number of NGOs, there is no research into the website practices of charitable organisations.

3. Research methods

3.1 INTRODUCTION

The objectives of this research are outlined in Chapter 1 (section 1.2). This chapter presents the methods adopted to analyse the discharge of accountability by charities through their annual reports, annual reviews and websites.

3.2 SAMPLE SELECTION

This study focuses on large UK charities, as they are economically the most significant and have the highest national profile. Fundraising, grantmaking and charities engaged in both fundraising and grantmaking are included, as each is influential. It is recognised, however, that each may have different stakeholder groups and different needs to account, which may in turn influence external accountability practices. A small number of Social Enterprise Organisations (SEOs) are also surveyed, the results of which are reported in Appendix B.

Charity size was determined on the basis of charitable income, and the top 104 UK charities as ranked by CaritasData (2007) were selected. For the report-based analysis (ie the content analysis of the annual reports and annual reviews), a letter was sent to each of the charities requesting a copy of these documents for the period covering 2005/06 (or the closest available to this period). This period was chosen as it is the first period for which the recommendations of the 2005 Statement of Recommended Practice (SORP) (Charity Commission 2005) apply. A reminder was sent to the non-respondent charities. For the website analysis, all charities selected for participation were examined.

3.3 CONTENT ANALYSIS

Annual reports, annual reviews (where produced) and websites were used as the units of analysis for this research. Although all forms of data reaching the public domain can be considered to be part of the accountability discharge function, these three channels were chosen as suitable units of analysis because they are within direct managerial control (Guthrie and Parker 1989) and because they have a level of formality that goes beyond a marketing/publicity-type document. Moreover, each reflects a specific characteristic: the annual report is a statutory document, the content of which is regulated and subject to independent monitoring; the annual review is a voluntary form of communication with external stakeholders; and the Internet offers ease of access and the potential to disseminate information in a cost-effective manner.

To collect the relevant data from the charity annual reports and annual reviews (see section 3.4 below for the website analysis), this research employed content analysis. This is a technique that enables researchers to codify qualitative information that appears in anecdotal and literary form into previously determined categories, in order to derive and understand the presentation and reporting patterns (Abbott and Monsen 1979). Identifying the text or material to be examined, and determining what categories researchers will collect information about, are therefore critical attributes of content analysis. Moreover, how to collect the information (ie how best to code and/or count the various types of disclosure), is important. Based upon the accountability literature discussed in Chapter 2, a checklist was developed that captured accountability disclosures under three key headings:

- fiduciary accountability, which emphasises probity, compliance, control and good governance
- financial managerial accountability, which addresses organisational performance along financial themes
- operational managerial accountability, which looks at accountability in relation to organisations' activities and impact in relation to the very intentions for which they were set up.

Under each of these three headings, a series of specific disclosure items was identified and incorporated. For each individual item, data were collected on the:

- presence/absence of the disclosure item to capture the broad accountability practices
- quantity of disclosure, which is used as a measure of the level of importance attached to the specific disclosure item by the disclosing organisation, and
- quality of disclosure.

In accordance with Deegan and Gordon (1996), the quantity of disclosure was measured using the number of words attributed to the individual disclosures. Quality of disclosure was assessed by collecting additional, complementary data, in relation to: (i) the type of information presented – qualitative, quantitative, monetary or ratio based; (ii) an explanation of/for the results in relation to the specific disclosure item; and (iii) information about the future in relation to the specific disclosure item.

In terms of 'how' the data were collected, once the checklist was developed it was tested on a small sample of organisations on a number of occasions and revised accordingly to enable the collection of a complete, objective and reliable source of data that: (i) captured all the disclosures provided in the annual report and annual review that could be classified as accountability disclosures; and (ii) produced an objective and reliable final coding instrument. The data set was collected by a research assistant who was trained by the authors.[1] Single-person involvement was considered important to help ensure consistency of analysis. Examples of the definitions adopted and disclosures are provided in Appendix C (page 75). Further information with respect to the analysis of the annual reports and annual reviews, together with the results, is provided in Chapter 4.

1. A copy of the annual report and annual review checklist, together with the coding rules, is available from the authors on request.

3.4 WEBSITE ANALYSIS

For the website analysis, given the vast amounts of information that may be available on individual websites, the content available was not analysed in the manner described above for the reports. Instead, a checklist pertaining to website evaluation was derived from previous research on website analyses. Although much of this research has been set in the context of the private sector, the checklist was tailored to suit the charitable sector. Key areas of investigation here included: (i) usability of the website in terms of its general design, and that of the pages within it more specifically; and (ii) the extent of Web-based accountability captured through the presence of formal accountability-type documents, such as annual reports, and other narrative accountability-type disclosures, such as those pertaining to organisational mission and organisational activities.[2] Further information with respect to the analysis of the charity websites, together with the results, is provided in Chapter 5.

3.5 INTERVIEWS

Following the analysis of the data obtained from the content analysis of the annual reports and reviews and website analysis, a semi-structured interview questionnaire was constructed. A number of interviews were conducted with key personnel from a sample of charities to help understand and contextualise the results generated.[3] While the interviewees held a variety of senior positions, including the director of finance, head of finance and marketing and communications director, each played a key role in the preparation of their organisation's annual report and annual review. Further information with respect to the interviews, together with the responses, is provided in Chapter 6.

3.6 CONCLUSION

The aim of a research strategy is to obtain information that can be analysed so that patterns can be assessed and comparisons made (Saunders et al. 2000). The data in this research were extracted primarily from each charity's annual report, annual review and website. It is recognised that there are potential problems with the comparability of data since organisations may classify similar types of information differently, and, as the analysis is based upon one year's information, it is not possible to examine trends over time. Moreover, as this research focuses on large UK charities, and given the relatively small number of interviews conducted, the findings and views expressed may not be representative of the sector as a whole. Nevertheless, it is believed that the results offer a worthwhile contribution to our understanding of the charitable sector.

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2. A copy of the website checklist, together with the coding rules, is available from the authors on request.

3. A copy of the interview questionnaire is available from the authors on request.

4. Analysis of annual reports and reviews

4.1 INTRODUCTION

This chapter reports the results of the content analysis of the annual reports and financial statements (hereafter referred to as 'annual reports') and annual reviews of the respondent charities. It commences with an analysis of the response rate, and then describes the characteristics of the respondent charities before proceeding to report on the results of the content analysis. The disclosure patterns found in the annual reports and annual reviews are reported and discussed separately. Where possible, the results are compared with those from prior research. The results of the website analysis and charity interviews are reported in Chapter 5 and Chapter 6 respectively.

4.2 RESPONSE RATE

Seventy-five of the 104 charities approached responded to the request to supply their annual reports and annual reviews (Table 4.1, Panel A). This response rate (72%) compares favourably with that of other studies that have examined similar documents. Respondents either sent a hard of copy of their annual reports and annual reviews by post, or e-mailed links to the documents on their websites (Panels C and D). All responses were treated alike and the electronic documents were printed as hard copies for analysis purposes. Of the 75 respondents: 67 supplied annual reports and 48 their annual reviews. Forty charities supplied both their annual reports and annual reviews; 27 charities supplied an annual report only; and eight supplied an annual review only. The lower response level for annual reviews is not surprising given that these documents are voluntary and not all charities may produce them. On the other hand, and notwithstanding the non-response of 23 organisations, the refusal of 14 charities to provide their annual report (Panel B) (albeit eight did provide their annual review) is somewhat surprising given the legal requirement to do so in accordance with the Charities Act 2006. The eight charities that supplied their annual reviews perhaps consider their annual reports as technical documents produced to satisfy a statutory stewardship function, and their annual reviews as documents for general public consumption.

All respondent charities, with one exception, responded to the first letter of request. Although this meant it was not possible to compare the characteristics of early and late respondents to assess respondent bias, the income and expenditure characteristics of the respondents and non-respondents were analysed (based upon information obtained from CaritasData (2007)) using Mann Whitney tests. No statistically significant differences were identified between the two groups.[4] Therefore, the overall respondent sample is considered unbiased, objective and reflective of the general larger-charity population.

4.3 RESPONDENT CHARACTERISTICS

With respect to the activities of the 75 charities that provided a copy of their annual report and/or annual review, 57 were fundraising charities and 18, non-fundraising charities. Moreover, 57 operated in a specific area of activity, 10 operated on the fringes of the public sector and eight operated specifically to respond to crises (Table 4.2, Panel A). Finally, as illustrated in Table 4.2, Panel A, the respondent charities engaged in a variety of activities, ranging from social services and international relief to religious activities, conservation, and culture.

Although the focus of this research is the top United Kingdom charities, there is considerable size variation across the sample. When measured by income, the largest charity is more than 20 times bigger than the smallest, and the standard deviation relative to the mean income level is also high. A similar, though more pronounced trend, is evident with respect to expenditure levels. Furthermore, there was extensive variation in the overall financial positions of the organisations as measured by surplus/deficit levels. The range varied from a surplus of £62.5 million to a deficit of £218.8 million (Table 4.2, Panel B), with 47 of the 67 charities reporting an overall surplus level and the other 20 reporting a deficit.

4. P values for income and expenditure were 0.326 and 0.218 respectively, with Z values of -0.982 and -1.231.

Table 4.1: Charity response rate

Panel A: Overall response rate	Annual reports	Annual reviews
Number of requests made	104	104
Number of usable responses	67	48
Response rate	64%	46%

Panel B: Total documents received	Number	%
Annual report and annual review received	40	38
Annual report only received	27	26
Annual review only received	8	8
Responded but declined to provide annual report and/or annual review	6	6
No response	23	22
	104	**100**

Panel C: Annual reports	Number	%
Hard copy	54	52
Soft copy	13	13
Responded but declined to provide annual report	14[a]	13
No response	23	22
	104	**100**

Panel D: Annual reviews	Number	%
Hard copy	42	40
Soft copy	6	6
None received	56[b]	54
	104	**100**

Notes

a Of which, eight sent their annual review.

b Of which, six responded but declined to provide their annual report and/or annual review; 27 sent annual report; and 23 did not respond.

Table 4.2: Respondent characteristics

Panel A: Principal areas of activity[a]

Fundraising/Non-fundraising[b]		Nature of work		Area of activity	
Fundraising	57	Operates in a specific area of activity	57	Social services and relief	15
				Health and medical	9
				Religious	9
				International activities	9
		Operates on the fringe of the public sector	10	Conservation and protection	8
				Education, training and research	8
				Culture, sport and recreation	7
				Housing and community affairs	6
Non-fundraising	18	Responds to crises	8	Civil rights and law and order	4
	75		**75**		**75**

Panel B: Financial characteristics[a]

	Income (£m)	Expenditure (£m)	Surplus/(Deficit) (£m)
Minimum	24.2	5.4	(218.8)
Maximum	517.5	543.2	62.5
Mean	116.8	116.3	0.411
Standard deviation	102.0	111.2	31.1

Notes

a Figures based upon the 75 charities providing copies of either their annual report and/or annual review.

b Fundraising charities derive a significant proportion of their income from the general public and are, as such, what the public would recognise as forming part of the charitable sector. Non-fundraising charities, on the other hand, rely on other sources of income such as government contracts, private investment and earned income.

Table 4.3: Annual report characteristics

Panel A: Title and time period (n = 67)

Document title	No.	%	Time period	No.	%
Annual report	47	71	2005/06	56	84
Trustees' report	10	15	2006	11	16
Financial statements	6	10			
Summary financial statements	1	1			
Annual accounts	1	1			
Annual review	1	1			
Report	1	1			

Panel B: Document length (pages)

	Total	Financial statements	Narrative information
Minimum	20	5	8
Maximum	114	66	87
Mean	49.6	25	25.1
Standard deviation	17.8	9	13.3

Panel C: Document content (n = 67)

	No.	%		No.	%
Objectives/mission/vision	67	100	Governance	65	97
Summary of activities	64	96	Trustees' report	56	84
Chairman's statement	46	69	Directors' report	8	12
Treasurer's statement	7	10			

4.4 DISCLOSURE PATTERNS: ANNUAL REPORTS

Document characteristics
Table 4.3 outlines the characteristics of the annual reports received. The respondent charities used a variety of terms to refer to these documents, including 'annual report', 'trustees' report and financial statements' and 'annual accounts' (Table 4.3, Panel A). All the annual reports received met the criterion of covering a financial year ending post-April 2005, the date on which the 2005 Statement of Recommended Practice (SORP) (Charity Commission 2005) became effective. The actual year end dates, however, differed (Table 4.3, Panel A).

The mean length of annual report for the respondent organisations was 49.6 pages, with the mean page count for narrative information being similar to that for financial information. In comparison to the 2000/01 annual reports examined by Connolly and Dhanani (2006), the average length of the total report had increased almost twofold from 27.57 pages to 49.6 pages. The proportions of financial information and narrative information had also changed considerably, with rises of 70% and 130% respectively (the 2000/01 reports recorded mean page counts of 14.9 and 10.9 for financial and narrative information respectively).

The narrative content in the annual reports was generally reported under seven main headings (Table 4.3, Panel C). Of these, the sections 'charity objectives/mission/vision', 'governance', 'summary of activities' and 'trustees' report' were present in over 80% of the reports, with the headings 'directors' report' and 'treasurer's statement' being the least frequently used (12% and 10% respectively). These results differ considerably from those reported by Connolly and Dhanani (2006) relating to 2000/01 annual reports, where the trustees' report was the most common category, present in 43% of the charities examined, with categories such as charity objectives and summary of activities being present in only 24% and 11% of reports respectively.

Accountability patterns
As explained in Chapter 3, the information collected was coded under the three accountability themes identified in Chapter 2: fiduciary accountability; financial managerial accountability; and operational managerial accountability. The results for each of these three accountability themes are presented in Table 4.4, Table 4.5 and Table 4.6. Each of these tables includes: a 'disclosing charities' category, which records the number and percentage of charities that disclosed information for each sub-category; a 'number of words disclosed' category, which provides the range, mean level and standard deviation of the words disclosed under each sub-category; and a 'contents' category that provides further detail about the nature and type of information presented for each disclosure item.

In relation to fiduciary accountability (Table 4.4), of the 10 disclosure items examined, governance and decision making and risk management generated the highest disclosure rates, of 97% and 96% respectively, suggesting that almost all the respondents sought to provide details of how their organisations were governed, how key decisions were made, and an indication that risk management systems were in place. In the last case, while the rate of compliance with the Charity Commission's (2005) recommendations to provide a statement of risk management was low, most organisations did explain how the risks identified were formally managed. A smaller proportion actually described and explained for external audiences the major risks encountered. Disclosures about the selection and training of management committees and financial policies (investment policies and reserves policies) were progressively smaller and, in turn, increasingly disappointing. This was so particularly for the financial policies, which were recommended disclosures prior to the 2005 SORP (Charity Commission 2005). Connolly and Dhanani (2006) examined the 2000/01 charity annual reports and report higher disclosure levels at 72% and 85%, for investment and reserves policies respectively.

With respect to financial managerial accountability (Table 4.5), the purpose of which is to review the organisation's financial performance and relate the financial statements to the objectives and activities, disclosure levels were generally low. For example, the highest disclosure level, that relating to surplus/deficit levels, was 69%, and disclosure levels relating to expenditure reviews and fundraising activities were just over half (51% and 53% respectively). Information about financial policies, trading activities and overall organisational efficiency were even lower, with more than half the respondents failing to provide such disclosures (after taking into consideration those organisations for which individual items were not relevant). Indeed, for five of the six categories also examined by Connolly and Dhanani (2006), the disclosure levels found in this research were lower than those recorded for the 2000/01 period. The most significant changes were in relation to disclosures on: expenditures, which decreased from 83% to 51%; operational efficiency, which decreased from 59% to 42%; and trading activities, which decreased from 58% to 38%. Only disclosures on surplus and deficit levels increased (from 56% to 69%).

Finally, in relation to operational managerial accountability (Table 4.6), the purpose of which is to capture actual organisational impact, 91% of respondents stated their aims and objectives, and 50% framed these in the context of an organisational mission and vision. Despite the Charity Commission's recommendations (2005) that charities should describe and explain their activities in the context of the organisation's charitable intent, only 58% made relevant disclosures. Again, these results compare unfavourably with those reported by Connolly and Dhanani (2006) in which over 90% made relevant disclosures. A similar trend is apparent with respect to organisational achievements; 86% of charities provided such disclosures in 2000/01 (Connolly and Dhanani 2006), in comparison to 49% in 2005/06. While the disclosure of inputs and outputs information also declined, results-based information increased from 17% to 45%. The disclosure of efficiency and effectiveness measures for both time periods was low.

Table 4.4: Annual reports: Descriptive analysis of fiduciary accountability disclosures

	Disclosing charities		Number of words disclosed[a]				Content			
							Explanation/ assessment		Future	
	No.	%	Min.	Max.	Mean	Std. dev.	No.	%[b]	No.	%[b]
Organisational structure										
Governance and decision making	65	97	130	1,600	564	351	5	8	1	2
Partnership arrangements	29	43	40	1,500	240	301	2	7	-	-
Governance										
Trustee selection and appointment policy	49	73	20	280	86	61	4	8	1	2
Trustee induction and training policy	40	60	10	225	75	56	2	5	1	3
Overall risk management[c]	64	96	35	850	288	196				
Risk management approach	57	85	35	730	244	173	3	5	1	2
Major risks encountered	13	19	20	375	170	125	-	-	-	-
Risk management statement	12	18	40	680	193	176	-	-	-	-
Financial										
Reserves policy	36	54	30	860	236	182	3	8	2	6
Investment policy	29	43	50	420	184	101	3	10	2	7

Notes

a The mean level and standard deviation results are based upon disclosing charities only.

b The percentage of disclosing charities is calculated on the basis of the overall number of disclosing charities.

c This row represents the overall information presented in relation to risk management. It is then separated into three sub-categories: the risk management approach adopted; the major risks encountered; and a statement of risk management. The sum of the three sub-categories exceeds the total for overall risk management because some charities made more than one risk disclosure.

Table 4.5: Annual reports: Descriptive analysis of financial managerial accountability disclosures

	Disclosing charities[a]		Number of words disclosed[b]				Content: Information type			Content: Comparison		Content: Explanation	Content: Future
	No.	%	Min.	Max.	Mean	Std. dev.	Qual	Quant	Monetary	Prior	Target		
Income review	42	63	40	570	179	130	39	2	1	20	1	5	–
Expenditure review	34	51	15	420	154	97	31	3	–	16	1	4	–
Surplus/deficit levels	46	69	10	800	217	171	45	1	–	10	1	1	–
Financial investment policy	28	42	50	640	193	140	27	1	–	2	1	1	–
Financial reserves policy	27	40	50	530	242	122	27	–	–	2	–	1	–
Trading activities[c]	18	38	30	500	169	147	18	–	–	6	1	1	–
Organisational efficiency													
Overall organisational efficiency[d]	28	42	40	1,050	296	263							
General disclosure	16	24	75	1,050	367	317	15	1	–	4	1	1	1
Management cost	3	4	10	80	37	38	3	–	–	–	–	–	–
Charitable cost	13	19	40	380	166	111	13	–	–	2	1	–	–
Combination cost	1	1	160				1	–	–	–	–	–	–
Fundraising efficiency													
Overall fundraising efficiency[d]	28	53	40	1,050	296	264							
General disclosure	20	38	30	620	261	182	20	–	–	3	2	1	–
Fundraising spend	5	9	2	180	78	75	5	–	–	1	–	1	1
Fundraising income	8	15	2	270	127	94	8	–	–	–	1	–	–

Notes

a When calculating the percentage values for the charities disclosing the relevant sub-category, the denominator (ie the total number of charities) refers to the total number of charities to which the sub-category was relevant. For example, for fundraising efficiency, the total number of charities reflected only the charities that engaged in fundraising to attract a revenue stream.

b The mean level and standard deviation results are based upon disclosing charities only.

c Disclosure of this item is not required by the 2005 SORP (Charity Commission 2005).

d Although this item was mentioned in the 2005 SORP (Charity Commission 2005), the items examined under this category in this study were not specifically stated.

Table 4.6: Annual reports: Descriptive analysis of operational managerial accountability disclosures

	Disclosing charities[a]		Number of words disclosed[b]				Content: Information type			Content: Comparison		Content: Explanation	Content: Future
	No.	%	Min.	Max.	Mean	Std. dev.	Qual	Quant	Monetary	Prior	Target		
Mission statement[c]	34	50	10	600	98	125	34	–	–	1	1	–	–
Aims and objectives	61	91	15	1,560	331	284	61	–	–	2	2	1	–
Activities													
Descriptive information	39	58	40	2,500	797	780	39	–	–	1	–	–	4
Achievements/performance[d]													
Inputs information	8	12	60	740	293	239	8	–	–	–	–	–	–
Outputs information	7	10	80	7,300	1,420	2,619	7	–	–	–	–	–	–
Results information	30	45	50	6,480	2,068	1,724	30	–	–	–	–	–	–
Efficiency information	–	–	–	–	–	–	–	–	–	–	–	–	–
Effectiveness information	3	4	740	2,420	1,417	886	3	–	–	–	–	–	–
Total performance information	33	49	150	10,395	2,381	2,263	33	–	–	–	–	–	–

Notes

a When calculating the percentage values for the charities disclosing the relevant sub-category, the denominator (ie the total number of charities) refers to the total number of charities to which the sub-category was relevant.

b The mean level and standard deviation results are based upon disclosing charities only.

c Disclosure of this item is not required by the 2005 SORP (Charity Commission 2005).

d Although disclosure of this item was mentioned in the 2005 SORP (Charity Commission 2005), the items examined under this category in this study were not specifically stated.

Overall, across all three themes of accountability, disclosure practices were varied. Specifically, there were clear differences between the reporting practices of individual organisations and between the different themes of accountability, with a preference for fiduciary accountability-type disclosures and organisations' charitable objects over financial managerial accountability and operational managerial accountability-type disclosures. Examining the volume of disclosures presented across all three themes, the wide variation in practice between organisations was emphasised, as some charities provided the equivalent of two to three sentences for some of the disclosure items, while others provided fuller descriptions. To the extent that the volume of disclosure captures the level of importance applied to the disclosure category by the organisation, there was wide variation in managerial views in relation to charity accountability disclosures.

For those organisations that made relevant disclosures, a broad analysis of the content of their disclosures indicates that for the financial and operational performance disclosures (such as income and expenditure reviews, and organisational achievements and accomplishments), information was generally presented in a qualitative format, with occasional use of quantitative or monetary data (Tables 4.5 and 4.6). In addition, there was only infrequent use of comparative data to contextualise the results of the year under review, and at best present in 20% of the organisations providing an income review (Table 4.5). Similarly, a much smaller percentage of charities backed up their comparisons with explanations for the results. This trend was also apparent with the more descriptive disclosures in relation to fiduciary accountability, where there was limited evidence of explanatory details (Table 4.4). For example, only five of the 65 charities that disclosed information about their governance and decision-making structures explained the bases for these structures. Finally, for most disclosure items, including charity objectives and activities, information about future plans was also absent.

Discussion

Between 2000/01 and 2005/06, several of the developments relating to the form and structure of the annual report were consistent with the theoretical literature and emphasise the growing importance of narrative information for discharging not-for-profit (NFP) accountability. These include: an increase in the overall size of the report; a substantial increase in the level of narrative information in the report; the precedence of narrative information (albeit marginal) over financial information; and finally the more widespread use of standardised narrative sections, such as the trustees' report and charitable aims and objectives.

What is less reassuring, however, is the degree to which these changes have actually translated into increased accountability by charitable organisations. Broadly speaking, the accountability disclosure practices of charitable organisations have not kept pace with the structural developments of the annual report. There are gaps in practice that relate to all three aspects of accountability, with those related to managerial accountability (both financial and operational) being more pronounced. Echoing the results of Connolly and Hyndman (2003) and the Charity Commission (2004b), these findings indicate that, while there are examples of comprehensive accountability practices, it appears that too many charities fail to meet basic accountability requirements.

Accountability progress

Compared with practices in 2000/01, as reported by Connolly and Dhanani (2006), charity accountability through information disclosures appears to have taken a step backwards. For example, fewer charities provided disclosures in relation to: their financial policies, financial performance and operating activities and performance that collectively helped to explain the future development of the organisations; how they sought to achieve their charitable intentions; and the extent to which they had done so. Although more charities seemed to have progressed to reporting results-based information about their performance, a significantly higher number failed to provide information about inputs and outputs. Overall, these results call into question the integrity and intentions of charitable organisations in relation to discharging accountability, and suggest a reluctance to produce reports that are believed to enhance accountability. Given current disclosure practices, organisational stakeholders are unlikely to be able to gauge easily the financial and operational positions of the organisations in which they are interested (ie whether they are financially sound, how efficient their operations are and the impact that they have on societal development).

The change in results between 2000/01 and 2005/06 also question the effectiveness of the various recent developments to encourage charity accountability. First, the 2005 SORP (Charity Commission 2005) was intended to influence charity practices by providing appropriate guidelines and recommendations. Introduced to replace the 2000 SORP (Charity Commission 2000), the overall objective of the 2005 SORP was to identify and clarify the role that the trustees' annual report plays in discharging accountability to external stakeholders, given that the guidelines in the 2000 SORP were believed to constitute little more than the trustees' acceptance and endorsement of the audited accounts (Pratten 2004). Moreover, to ensure that the trustees' annual report fulfilled its purpose of discharging accountability, the 2005 SORP provided detailed guidelines for the content of the trustees' annual report that were more explicit and more structured than those in the 2000 SORP. The changes made to the 2005 SORP, however, do not appear to have translated into changes in organisational practice. A comparison of these findings on accountability disclosures with those of charity practices in response to revised guidelines for financial accounting may serve to highlight whether the lack of compliance is universal across all 2005 SORP recommendations, or whether it is restricted to those concerning the trustees' annual report and narrative disclosures, which are arguably more difficult to comply with.

Publications by the ImpACT Coalition (2005) and the Institute of Fundraising (2006) also appear to have had limited effect. The primary focus of these publications is on managerial accountability, specifically the need to increase transparency of fundraising processes, to report on successes, achievements and setbacks, and to monitor progress against pre-established criteria. The limited support for organisational achievements, fundraising progress and comparative information against pre-established criteria in the annual reports, however, alludes to limited adoption of the two initiatives at this stage. Together with improving individual organisational accountability and transparency, the ImpACT Coalition sought to improve the public's understanding of the sector on matters such as the need for fundraising expenditure and management and administration costs. It is perhaps in relation to this latter educational aspect that the ImpACT Coalition has had the most success.

The Summary Information Returns (SIRs), which were introduced in 2005 following the Strategy Unit's report (2002), also appear to have had limited effect in relation to certain accountability disclosures. The purpose of the SIRs, which are targeted at the public, is to summarise the review of organisational activities and finances that are provided in more detail in charities' annual reports (Charity Commission 2007d). The returns emphasise the role of qualitative, discursive information and require charities to report on three specific areas:

- financial health
- objectives and achievements
- plans for the following year.

Together, the qualitative focus and specific questions posed should have encouraged narration and disclosures specifically on financial reviews (Table 4.5), organisational activities and achievements (Table 4.6), and information about future plans (Table 4.6) in the SIRs, which should have then been extended to and detailed in the annual reports. This is similar to the development of the Guidestar UK website, which was launched in 2003 to present charity information online and support the sector's accountability practices. Information on the website is presented under predetermined categories that include 'charity objectives', 'review charity activities', 'structure and governance' and 'financial profiles', which should at least encourage charities to provide these accountability disclosures. As this research does not assess the roles of the SIRs and Guidestar UK in promoting accountability, there remains a possibility that organisations discharge their accountability through SIRs and Guidestar UK and not through their annual reports. If this is the case, however, charities are not compliant with the recommendations of the SORP (Charity Commission 2005), which specifically requires that organisations respond to all the content items stipulated in the SORP, even if additional accountability channels are adopted.

Finally, the Charity Online Accounts Awards, which aim to reward best practice in financial accounting and encourage online reporting, also appear to have had limited success in encouraging organisational accountability. This is perhaps unsurprising given that the award focuses extensively, or possibly even exclusively, on the financial statements (Ward 2006). The brief recommendations about possible narrative information are oriented more towards public relations-type, 'story telling' material to 'draw supporters to the work' (Charities Aid Foundation 2007) than towards more factual accountability-type disclosures.

One important factor that may help to explain the downward trend in accountability disclosures and the limited effects of the various initiatives is the differing characteristics of the sample organisations in Connolly and Dhanani (2006) and those in this research study. Connolly and Dhanani focused exclusively on fundraising charities whereas this research included charities that do not necessarily rely on public support. Relying extensively on external stakeholder support, fundraising charities may be more inclined to discharge accountability and seek legitimacy than those not reliant on direct public support. In this light, a cross-sectional analysis using Chi-square was conducted to assess differences in the disclosure practices of the fundraising and non-fundraising charities included in the current study. Surprisingly, however, there were no statistically significant differences between these two groups of charities.

Fiduciary versus managerial accountability

Assessing the trends in practice for the 2005/06 period only, there appears to be a tendency to provide fiduciary information and information about charitable objects more readily than information about organisational performance, both financial and operational. There are three possible interrelated reasons. First, charities believe that the role of the annual report, with its history as a financial accounting document, is to provide information to confirm that funds have not been misappropriated and that mechanisms are in place to safeguard organisational funds. In other words, the function of the annual report is to fulfil the stewardship role rather than to convey organisational success. The narrative disclosures therefore reflect the fiduciary-type disclosures rather than evaluative information that helps assess organisational performance. Although the 2005 SORP (Charity Commission 2005) explicitly states that organisations should provide managerial accountability disclosures in their annual reports, charities may be relying on alternative, supplementary channels such as their annual reviews. This possibility is explored further in section 4.5.

Secondly, the Charity Commission has traditionally been responsible for regulating the sector and has in this capacity emphasised fund management rather than operational organisational success. As a result, its publications reflect, or are considered to reflect, this underlying theme, which is then translated into the content of annual reports. The broader, more extensive role for the Charity Commission carved out by the Charities' Act 2006 may help address this possibility.

Finally, considering the nature of the two types of disclosures, charities may be more inclined to provide descriptive information that is unlikely to change significantly from one year to the next, than risk exposure by providing evaluative information and information about future plans. In other words, charities paradoxically seek to avoid disclosures for which they could be held responsible and accountable. In this case, rather than seeking to enhance their accountability, charities are making conscious decisions that reduce organisational transparency.

Organisational legitimacy

Assuming that the annual report is a key vehicle by means of which charitable organisations discharge accountability, an important implication of these results is that charitable organisations seek legitimacy for their activities from their charitable intentions (ie the charitable aims and objectives in Table 4.6) and control mechanisms (governance and risk management practices in Table 4.4), rather than from their activities and ultimate impact (Table 4.6). In other words, as value-driven organisations, the good causes that they work towards enable charities to gain the support of organisational stakeholders, including financial supporters and contributors, to continue to operate. While Hyndman's studies (1990; 1991), which inquired into the information preferences of contributors, confirm their preferences for disclosures about overall organisational aims and areas of need, they also emphasise users' needs for information about charitable expenditures, organisational achievements and organisational efficiency. Anecdotal evidence in relation to heightened media publicity and advances in public education, and the results of the experimental study of giving by Buchheit and Parsons (2006), also support the need for achievements and accomplishments-type information to raise the quality perception of organisations and increase public trust and confidence in the sector.

The apparent inconsistency between the results of this research and previous research into information preferences of contributors may in part be explained by the overall results of Buchheit and Parsons (2006), who report that while the achievements and accomplishments-type information raised organisational profile, it did not translate into an increase in giving. In other words, although contributors' preferences include more accountability information, the absence of such information does not have a significant effect on charitable giving, and therefore does not encourage charities to provide such information. Alternatively, there remains a possibility that charities generate organisational legitimacy through their publicity and promotional activities in which they provide information on their activities and, increasingly, on their impact and financial performance, rather than through their annual reports. Nonetheless, rather than reflecting the results of actual performance, such disclosures are likely to be more about promises of what the organisations will achieve, and paradoxically, since such measures work, there is a limited need to follow up such information with details of actual performance.

A reflection of internal practices

A further implication of these results, namely the reticence in disclosing performance information, is that external practices may be a reflection of internal practices. To the extent that this is accurate, these results support Lumley et al. (2005), who propose that internal activities are predominantly centred on intent and activities, and not on results. A subsidiary benefit of external accountability (see Chapter 2) is that it enables organisations to improve their performance. A critical expectation here is that organisations have measures in place to examine their performance and report it to external audiences, and to learn from their experiences, both positive and negative. While NFP performance measurement is widely known to be fraught with difficulties and problems, it is essential to raising the profile of the sector, and more needs to be done to overcome this chasm in practice. A key concern, in the absence of easily identifiable performance measures, is that proxy measures fail to highlight the real achievements of the organisations, and the real differences that they make to the causes that they work towards. One example in this respect is for organisations to use activities-type information as a measure of organisational achievements: a statement such as 'we took our project forward to its third phase of development' illustrates progress within the organisation, but is more about developments in relation to the activities undertaken than conveying any meaningful information about the impact of these activities.

Overall, the inconsistency between the increasing role of narrative information in annual reports and the absence of accountability disclosures is a cause for concern. One possibility is that the charities have enhanced the 'narrative' sections of the annual report with other types of disclosure such as tables, graphs and photographs, and/or that the narrative information provided does not fit the definitions and descriptions of accountability disclosures used in this research. It would be interesting to investigate whether similar disclosure patterns are present in the annual reports of smaller charities or charities regulated in other jurisdictions.

4.5 DISCLOSURE PATTERNS: ANNUAL REVIEWS

Document characteristics
As illustrated in Table 4.1, Panel D (see page 23), 48 annual review documents were received and analysed. Although a number of different titles were used to refer to the documents, 'annual review' was the most common (see Table 4.7, Panel A, page 34). Most of the reviews were 'annual', although in two cases the review covered a longer period. The size of annual reviews was extremely variable, more so than for annual reports, ranging from four pages to 140 pages; the mean page count was 35 pages (Table 4.7, Panel B). Perhaps unsurprisingly, the overall mean page count of the annual reviews was lower than that of the annual reports (35 pages versus 49.6 pages), although it was higher than the narrative element of the annual reports (25.1 pages). The content of the reviews was predominantly narrative, although unlike annual reports, there was little standardisation between the reports (Table 4.7, Panel C). This latter point is perhaps not surprising given the voluntary nature of the documents and the fact that annual reviews are not subject to external regulation.

The overall impression was that the style, structure and content of the reviews was also more attractive and user friendly than that of the annual reports, and that the principal objective of the reviews was to provide general publicity for the organisation. This is consistent with the findings of the Charity Commission (2004a).

Accountability patterns
The analysis of the content of the annual reviews with reference to the three predetermined themes of accountability indicates that disclosures about fiduciary activities and reviews of financial information were uncommon (Tables 4.8 and 4.9). Only 10% of charities provided information about their governance structures (fiduciary accountability). Similarly, at best, only 27% of charities provided information about their surplus/deficit levels (financial managerial accountability). In contrast, 92% of charities provided descriptive information about their operating activities (Table 4.10) suggesting that information in the reviews predominantly captured operational managerial accountability. These results are supported by an examination of the word count of the disclosures, with information categories under operational managerial accountability generating higher mean word count values than those under fiduciary or financial managerial accountability.

Within respect to operational managerial accountability, disclosures were predominantly concerned with organisational activities, with less information on aims and objectives and organisational performance; only 19% and 35% presented information about organisational aims and performance (Table 4.10). Moreover, there was a tendency to focus on qualitative disclosures, with quantitative and monetary values used only occasionally. Comparative explanatory and future information was also uncommon. The volume of disclosures also varied between organisations, with some organisations providing only short paragraphs on specific disclosures while others provided several pages.

Table 4.7: Annual review characteristics

Panel A: Title and time period (n = 48)

Document title	No.	%	Time Period	No.	%
Annual review	38	80	2003/06	1	2
Review	4	8	2004/06	3	6
Impact report	2	4	2005/06	25	52
Review of activities	1	2	2006	19	40
Review of the year	1	2			
Other	2	4			

Panel B: Document length (pages)

Minimum	4
Maximum	140
Mean	35
Standard deviation	27

Panel C: Document content (n = 48)

	No.	%		No.	%
Objectives/mission/vision	27	56	Governance	6	13
Summary of activities	43	90	Trustees' report	3	6
Chairman's statement	25	52	Directors' report	-	-
Treasurer's statement	1	2			

Table 4.8: Annual reviews: Descriptive analysis of fiduciary accountability disclosures

	Disclosing charities[a]		Number of words disclosed[b]				Disclosing Charities: Explanation/ Assessments		Disclosing Charities: Future	
	No.	%	Min.	Max.	Mean	Std. dev.	No.	%	No.	%
Organisational structure										
Governance and decision making	5	10	50	1,250	500	503	–	–	–	–
Partnership arrangements	3	6	160	980	450	460	–	–	–	–
Governance										
Trustee selection and appointment policy	1	2	50				–	–		–
Trustee induction and training policy	2	4	40	300	170	184	–	–	–	–
Overall risk management										
Risk management approach	–	–	–	–	–	–	–	–	–	–
Major risks encountered	–	–	–	–	–	–	–	–	–	–
Risk management statement	1	2	165				–	–	–	–
Financial										
Reserves policy	–	–	–	–	–	–	–	–	–	–
Investment policy	–	–	–	–	–	–	–	–	–	–

Notes

a When calculating the percentage values for the charities disclosing the relevant sub-category, the denominator (ie the total number of charities) refers to the total number of charities to which the sub-category was relevant.

b The mean level and standard deviation results are based upon disclosing charities only.

Table 4.9: Annual reviews: Descriptive analysis of financial managerial accountability disclosures

	Disclosing charities[a]		Number of words disclosed[b]				Content: Information type			Content: Comparison		Content: Explanation	Content: Future
	No.	%	Min.	Max.	Mean	Std. dev.	Qual	Quant	Monetary	Prior	Target		
Income review	8	17	40	180	104	59	8	–	–	1	1	2	2
Expenditure review	8	17	30	190	88	54	8	–	–	1	1	2	2
Financial health	13	27	60	720	288	243	13	–	–	8	1	5	2
Financial investment policy	3	6	15	180	98	83	3	–	–	1	–	1	–
Financial reserves policy	3	6	105	150	135	26	3	–	–	–	–	–	–
Trading activities	1	2	250				1	–	–	–	–	–	–
Organisational efficiency													
General disclosure	1	2	190				1	–	–	1	–	1	–
Management cost	1	2	100				1	–	–	–	–	–	–
Charitable cost	3	6	70	100	–	–	3	–	–	–	–	–	–
Combination cost	1	2	65				1	–	–	–	–	–	–
Fundraising efficiency													
General disclosure	6	13	140	375	239	106	6	–	–	1	1	1	–
Fundraising spend	2	4	10	150	80	99	2	–	–	–	1	1	–
Fundraising income	3	6	60	90	70	17	3	–	–	–	–	–	–

Notes

a When calculating the percentage values for the charities disclosing the relevant sub-category, the denominator (ie the total number of charities) refers to the total number of charities to which the sub-category was relevant. For example, for fundraising efficiency, the total number of charities reflected only the charities that engaged in fundraising to attract a revenue stream.

b The mean level and standard deviation results are based upon disclosing charities only.

Table 4.10: Annual reviews: Descriptive analysis of operational managerial accountability disclosures

	Disclosing charities[a]		Number of words disclosed[b]				Content: Information type			Comparison		Explanation	Future
	No.	%	Min.	Max.	Mean	Std. dev.	Qual	Quant	Monetary	Prior	Target		
Mission statement[c]	3	6	10	120	50	61	3	–	–	–	–	–	–
Aims and objectives[c]	9	19	45	675	231	189	9	–	–	1	2	2	1
Activities													
Descriptive information	44	92	245	14,580	3,327	2,906	44	–	–	5	1	2	3
Achievements/performance													
Inputs information	3	6	60	1,440	570	757	3	–	–	–	–	–	–
Outputs information	–	–	–	–	–	–	–	–	–	–	–	–	–
Results information	16	33	390	5,630	2,352	1,603	16	–	–	–	2	–	–
Efficiency information	1	2	265				1	–	–	–	–	–	–
Effectiveness information	–	–	–	–	–	–	–	–	–	–	–	–	–
Total performance information	17	35	265	5,630	2,329	1,573	17	–	–	–	–	–	–

Notes

a When calculating the percentage values for the charities disclosing the relevant sub-category, the denominator (ie the total number of charities) refers to the total number of charities to which the sub-category was relevant.

b The mean level and standard deviation results are based upon disclosing charities only.

c This is more than a statement of aims or mission (as per Table 4.7), but captures whether the organisation explained how it had achieved or performed against them.

Comparing the content of the annual reviews and annual reports, there appears to be a tendency to report fiduciary and financial managerial accountability-type disclosures in the annual reports and to emphasise operational accountability-type disclosures in annual reviews. Specifically, some areas related to governance and risk management generated disclosure levels in excess of 70% (Table 4.3) compared with 27% at best in the annual reviews (Table 4.9). In contrast, for operational activities, the annual reviews generated a disclosure level of 92% (Table 4.10) compared with 58% in the annual reports (Table 4.6). Nevertheless, between the two formal documents, there was a lack of specific disclosures across all three themes of accountability by a significant proportion of organisations, and information about operational performance and achievements was scant in both the annual reviews and annual reports.

Discussion

The formal analysis of the annual reviews reveals that the documents are principally qualitative in nature. In the 48 annual reviews examined, the emphasis is on operational managerial accountability, with these documents supplementing the fiduciary and financial accountability-type information found in the annual reports. In other words, the two documents tend to capture quite distinct aspects of charity accountability. Having found similar reporting patterns with respect to 2001/02 documents, the Charity Commission (2004a) comments that while it was encouraging to see charities providing the relevant information, dividing the information between annual reports and annual reviews was not appropriate. Annual reports, the Charity Commission explains, should address all aspects of accountability including those related to activities, achievements and results. Indeed, the 2005 SORP (Charity Commission 2005) explicitly states the need to include such disclosures in the annual report, even if they are presented elsewhere. The results of this research suggest that the concerns posed by the Charity Commission (2004a) still exist. This raises concerns, therefore, that charities have not acted upon the Charity Commission's recommendations (2004a; 2005).

One possible explanation for the distinction between the content of the annual reports and the annual reviews is that, as discussed in Chapter 2, charitable organisations seek to generate organisational legitimacy through their publicity and promotional activities rather than their annual reports and, as noted by the Charity Commission (2004a), the annual review is one such publicity medium. Operational managerial accountability-type disclosures, such as activities information that enables charities to achieve legitimacy for their operations, are therefore provided in the annual reviews. One concern about such an approach in relation to annual reports and annual reviews is that the publicity materials do not face the same rigorous and independent scrutiny as annual reports, and thus the legitimacy earned has weaker foundations.

With reference to operational managerial accountability, as with the annual reports, the annual reviews did not capture all relevant aspects of accountability. The focus was principally on the activities in which the organisations engage to pursue their charitable intentions, and not on evaluative performance information that recorded how well they achieve their intentions or the set-backs that they encounter. Moreover, as with the annual reports, much of the information disclosed was of a qualitative nature, with limited support by quantitative, monetary or explanatory information. Finally, because of their voluntary nature, not all organisations produce an annual review, which raises the question of how far not doing so limits their external accountability practices. Consequently, while annual reviews may serve to narrow the gap between the fiduciary and financial managerial accountability-type disclosures and the operational managerial accountability-type disclosures in annual reports, this research raises concerns about organisational legitimacy, and evidence that external practices mimick internal practices continues to exist.

These findings suggest that annual reviews should be considered part of the formal channels through which charities discharge organisational accountability alongside annual reports. Therefore, in line with the conclusions reached by the Charity Finance Directors' Group (2003), a voluntary code of practice to guide the content of annual reviews should be developed in order to improve charity accountability and, in turn, strengthen the source of the sector's legitimacy. This proposal assumes the use of annual reviews by all charitable organisations; it does not, however, address the discharge of accountability by organisations that do not produce such documents. Moreover, it has obvious resource implications for both charities and the Charity Commission.

4.6 CONCLUSION

This chapter has reported the results of the content analysis of the annual reports and annual reviews to examine charity organisations' accountability practices. Examination of the annual reports for the period post-April 2005 develops the research of Connolly and Dhanani (2006) by using information that is more current and enables an assessment of the impact of the various recent developments to promote charity accountability.

By extending Connolly and Dhanani's research population to include other types of charitable organisation, in addition to fundraising, it is found that the role of narrative information (ie non-financial information) in the annual report has grown, and that organisations have increasingly used common headings, such as charity mission and vision and chairman's statement, under which to report. Disappointingly, however, the analysis of the actual content of the information indicates a weakening of accountability practices over time, a trend broadly apparent across all three themes of accountability but not statistically explained by the nature of funding (fundraising and non-fundraising). In addition, consistent with the findings of Connolly and Dhanani (2006), which are based upon 2000/01 annual reports, disclosures in relation to fiduciary accountability were greater than those in relation to managerial accountability.

The analysis of the annual reviews suggests that their content helped to address the fiduciary accountability/managerial accountability imbalance evident in annual reports as there was a clear emphasis on operational accountability-type disclosures within them. Overall, the research findings indicate an emerging pattern, in which the annual reports provide fiduciary and financial managerial accountability-type disclosures, and the annual reviews provide the operational managerial accountability-type disclosures. In both annual reports and annual reviews, operational managerial disclosures, when provided, centre on activities-type information, with performance- and achievements-based disclosures receiving limited consideration. Moreover, across all types of disclosure, the reporting of future or forward-looking information was extremely limited.

Overall, the results raise concerns about progress in charity accountability practices and the adoption of recommendations put forward by the Charity Commission (2005) and the ImpACT Coalition (2005) to take forward the agenda for change in the charitable sector. Furthermore, it is disappointing that 36% of charities contacted did not fulfil their statutory obligation and provide a copy of their annual report upon request. Moreover, the voluntary nature of annual reviews may restrict the accountability practices of organisations that do not produce them. It may be necessary to regularise the use of annual reviews across the sector, with the publication of self-regulatory guidelines to encourage appropriate disclosures. In addition, the research results raise concerns about: the extent to which charities currently rely on their supporters and contributors as a source of legitimacy; the extent to which this strategy will continue to have the desired effect; and whether external organisational practices mimic internal systems and practices.

Further investigation is required to explain the rise in narrative-type disclosures combined with the fall in accountability practices and, more specifically, how charities seek to legitimise their activities and the extent to which these methods are sustainable. It would be interesting to investigate whether similar disclosure patterns are present in the annual reports of smaller charities or charities regulated in other jurisdictions.

5. Analysis of charity websites

5.1 INTRODUCTION

This chapter reports the results of the analysis of the websites of the top 104 United Kingdom (UK) charities. The analysis covers two distinct aspects:

- presentation and usability of the websites, and
- content in relation to accountability disclosures.

The analysis was conducted during a relatively short period (August 2007) in order to capture as far as possible the information over the same period for all the organisations. The chapter commences with a description of the characteristics of the sample organisations and then proceeds to discuss the results of the analysis. In the absence of previous research into charity disclosures on the Internet, where possible, comparisons are made to practices in the public and private sectors.

5.2 SAMPLE CHARACTERISTICS

As illustrated in Table 5.1, Panel A, 96% of charities had a website. Of the four charities that did not, two operated on the fringe of the public sector and two engaged in specific charitable activities. Arguably, none of the four is publicly well known or relied on direct public support as a primary source of income. The financial characteristics of these four charities were no different to those with a website (for which see Table 5.1, Panel B).

Compared with website use by private and public sector organisations reported in previous research, charitable organisations in this research fared very favourably. Craven and Marston (1999) and Fisher et al. (2004) report Internet use in 74% (77% of the *Financial Times* and the London Stock Exchange (FTSE) 100) and 54% of the companies surveyed in the UK and New Zealand respectively. In addition, Laswad et al. (2005), examining e-government in local government in New Zealand, report website use in 71% of the local authorities surveyed. One possible reason for this result is that there has been a general progression in the use of the Internet since these earlier studies. Indeed, Craven and Marston (1999) find that the existence of a company website increased from 63% to 77% among FTSE 100 companies between 1996 and 1998. In addition, compared with e-government, charitable organisations, like corporate organisations, are likely to have more proactive audiences, including customers, beneficiaries and supporters and contributors who, because they have choice and options in their decisions, will seek to make informed judgements whereas voters' actions are broadly tied to intermittent elections.

5.3 WEBSITE PRESENTATION AND USABILITY

Website presentation and usability, as explained in Chapter 2, are of critical importance for online reporting to achieve effective communication between the organisation and its stakeholders. Based upon the features put forward by Shepherd et al. (2001), Tables 5.2 and 5.3 report the findings in relation to site and page design respectively. A direct comparison between these results on charity website usability and practices in business is difficult because this research conducts a more detailed analysis than previous corporate-based research. For example, while Craven and Marston (1999) did not capture website presentation, Lymer et al. (1999) summarised it in terms of 'static' websites and 'dynamic' websites. A like-for-like comparison with the more recent e-government research (Torres et al. 2006) is also difficult because these studies tailored website usability to suit government departments. Nevertheless, where possible, a comparison with previous research is provided.

Table 5.2 indicates that a majority of the websites examined were considered to be well designed in that:

- they were easy to navigate
- the layout and organisation of the information was logically ordered so as to make sense to users, and
- the information included simple and clear headlines and page titles to explain the nature of the content.

In most cases, it was possible to navigate around the site relatively easily without having to return to the 'home' page or use the 'back' function, and to distinguish between the information based on the possible user needs. These results are encouraging as (potential) contributors and supporters may not engage in extensive searches and wade through excessive information to access the information that they need, because they are not required to engage in altruistic activities, and even if they choose to do so, there is no personal gain involved. In addition, 87% of the charity websites had their own internal 'search' facility to help users to search the website. Shepherd et al. (2001) emphasise the importance of this option, particularly for 'search dominant' users who make up more than half of Web users (Nielson 2000). In relation to site design, all charities surveyed provided contact details or a link to a 'contact us' page on their home page. As well as enabling organisational stakeholders to initiate communication with management, Shepherd et al. (2001) explain that the presence of Web interactivity also serves to emphasise the importance and value that managers place on their stakeholders and their opinions.

Table 5.1: Sample characteristics

Panel A: Principal areas of activity

	Operates on the fringe of the public sector	Operates in a specific area of activity	Responds to crises	Total
Sample size	21	73	10	104
Number of charities with a website[a]	19	71	10	100
Percentage of charities with a website	90%	97%	100%	96%

Panel B: Financial characteristics[b]

	Income (£m)	Expenditure (£m)
Minimum	47.1	43.8
Maximum	526.2	528.1
Mean	113.0	107.3
Standard deviation	101.6	109.9

Notes

a Of the four charities that did not have a website, two provided an annual report and two did not.

b The financial information was obtained from www.CharitiesDirect.com. Details of surplus/deficit levels were not available.

Table 5.2: Website presentation and usability: site design[a]

	Strongly disagree	Disagree	Undecided	Agree	Strongly agree
Easy to navigate	–	1	1	59	39
Layout and organisation makes sense to the user	–	2	1	64	33
Straightforward headlines and page titles that clearly explain the content	1	3	2	55	39
User able to navigate around site from ‘current’ page without having to go ‘back’ or ‘home’	2	5	1	35	57
Information clearly provided for different stakeholder groups	2	4	–	54	40

	Yes	No
Internal ‘search’ option available on each page	87	13
Contact details/link clearly visible from home page	100	0

Note

a The number of charities to whom the category applies is equivalent to the percentage of charities, as there were 100 charities with websites.

Comparing the website practices of charities with those of private and public sector organisations, Xiao et al. (2002) report that only 23.3% of the Chinese companies surveyed had an internal search page. In addition, in relation to contact details, the authors report that 46% at best provided contact details in terms of an email address, phone number or postal address for their Investor Relations Department. Pina et al. (2007), however, when examining local government contact/reachability practices, report higher levels (94% and 66%) of postal contact details and email links to senior officials. Overall, UK charitable practices are at par with those of public sector organisations and have excelled those of private Chinese organisations, although time differences, organisational size and culture may have played a role.

In relation to page design (Table 5.3), the majority of websites surveyed included information that was considered to be of interest to users, and this information was presented in a logical and organised fashion to suit individual stakeholder groups. Moreover, in most cases (90%), the information was presented in a succinct manner, with hypertext used to split otherwise lengthy documents into smaller units (88%). These charities also generally used appropriate titles and subtitles, with words and phrases in italics and bold to enhance the page 'scan-ability' for users. While half the sample organisations relied on conventional textual measures to communicate with their stakeholders, the other half supplemented their textual material with graphical material, such as pictures and graphs, to create visually more attractive pages and/or enhance the messages in their textual disclosures. Taking advantage of more recent and innovative developments, 20 organisations also used audio material on their websites and 35 presented video material.

The results suggest high standards of practice that are at least comparable with those in the corporate and public sectors. For example, in relation to New Zealand companies, Fisher et al. (2004) reported that a smaller proportion (63%) used hyperlinks to enable easier navigation. In addition, in relation to graphics and audio/video materials, while charity standards were higher than those of Chinese firms (which recorded levels of 16% and 0.5% for graphics and audio/visual materials respectively (Xiao et al. 2002) and government (with 8% use of audio/visual materials (Pina et al. 2007), they were lower than those of New Zealand companies, of which 81% used graphics, audio and video material in total. The use of audio and video material may have been popular among charitable organisations as it captures their activities, and is likely to attract both beneficiary and contributor groups by acknowledging the recognition of the problem/issue and the charity's activities and intentions to resolve it.

Torres et al. (2006) who examined e-government, albeit using a different mix of Internet items to assess usability, to take consideration of the government-specific aspects, gave the organisations an overall percentage score of 50%. Although the present research does not score charities' practices, the frequency of 'agreement' levels and 'high agreement' levels recorded for specific website and web page attributes for the sample organisations indicates high standards in practice. As might be expected, however, there is clear scope for a minority of charities to improve their practices.

5.4 DISCHARGING ACCOUNTABILITY: WEBSITE CONTENT

Examining the role of the websites to discharge charity accountability to external stakeholders, 68% of the charities surveyed uploaded their annual report onto their website and 49% uploaded their annual reviews (Table 5.4, Panel A). Given the mandatory nature of the annual report, the former result indicates that while a significant proportion of charities sought to discharge accounting and accountability information through their websites, a sizeable proportion chose not to use their website for this purpose. Similarly, although a significant number of organisations provided an annual review online, not all charities that produced an annual review (and who supplied this research with a copy) did so. In addition, 65 charities provided an online version of a signed copy of the auditors' report and 24 provided 'other' financial information.

Table 5.3: Website presentation and usability: page design[a]

	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
Organised for ease of use, and dominated by information that is of interest to users	1	3	2	57	37
Information presented in a way that is relevant to each stakeholder group	1	3	4	55	37
Succinct (recommended that Web text is less than 50% of the text that would be used in a hardcopy publication)	–	8	2	59	31
Hypertext used to split lengthy documents/ content into multiple smaller documents/units	1	11	1	45	42
Scanability enhanced by using appropriate headings and subheadings, colour and bold words	1	5	–	50	44
Information explained by way of	**Text only**	**Text and graphics**			
	50	50			
Use of other media	**Audio**	**Video**			
	20	35			

Note

a The number of charities to which the category applies is equivalent to the percentage of charities, as there were 100 charities with websites.

Table 5.4: Website content: Annual reports and annual reviews and other accountability disclosures

Panel A: Accountability approaches			
Availability of:	**Yes**	**No**	
• annual report	68	32	
• annual review	49	51	
• auditors' report	65	35	
• other financial information	24	76	
Format of:	**HTML**	**PDF**	**Both**
• annual report	2	64	2
• annual review	3	42	4
Link from home page to:	**Yes**	**No**	
• annual report	4	96	
• annual review	3	97	
• other financial information	1	99	
'Search option' accuracy:	**Yes**	**No**	
• annual report	54	14	
• annual review	39	10	
• accounts	38	30	
• annual report and financial statements	43	25	
Hyperlink:	**Yes**	**No**	
• unaudited information linked from audited information	4	64	
• unaudited information linked to audited information	–	68	
Other financial information:			
Type:	**Financial**	**Performance**	**Both**
	4	9	11
Format:	**Numerical**	**Text**	**Graphics**
• financial	10	3	2
• performance	2	18	–
Nature:	**Historical**	**Future**	**Both**
• financial	5	7	3
• performance	3	13	4

Panel B: Accountability-type disclosures (fiduciary and managerial accountability)		
Disclosure	**Yes**	**No**
Description of objectives/mission/vision	100	–
Description of activities	99	1
Detailed discussion of main activities provided	86	14
Key organisational members identified (including trustees)	77	23
Meaningful description of key decision-making bodies	52	48
Agendas and minutes of governing and executive bodies' meetings available	5	95
Disclosure policy identified	–	100
Information available in the languages of those with a stake in the organisation	5	95

Comparing charity practices with those in the public and private sectors, Craven and Marston (1999) and Fisher et al. (2004) report that 56% of the UK FTSE 100 companies and 62% of New Zealand companies with websites uploaded their annual reports onto their websites. Oyelere et al. (2003), examining local government in New Zealand, report a much lower incidence rate of 20%. Although this research suggests that charitable organisations are better than their public sector counterparts in this respect, and are comparable with those of the private sector, if the rate of progression of Internet activity has been high since the Craven and Marston and Fisher et al. studies, charitable practices may now actually lag behind those of private sector companies.

Of those charities that provided their reports and reviews online, almost all relied on the portable document format (PDF files), with the HTML format being used only occasionally. The guidelines for the Charity Online Accounts Awards state that easy access to reports through formats such as HTML is important to enable all users to access documents easily. Nielson (2001), comparing the usability of HTML reports and PDF files, reports that while PDF versions were more suitable when users were likely to print the reports, on-screen reading reduced their usability by a factor of three when compared with HTML pages. Moreover, the practices of charities in this research compared less favourably with corporate practices reported by Xiao et al. (2002) and Craven and Marston (1999). This suggests that charitable practices may lag behind those of the corporate sector, with a tendency to simply to scan hard-copy reports and upload them onto organisational websites. These results possibly reflect the apparently smaller role that annual reports assume in charitable organisations.

When annual reports, annual reviews and other financial information were made available, only a minority of charities (4, 3 and 1 respectively) chose to provide a direct link from the home page to these documents. These results compare less favourably with those of Xiao et al. (2002), who report that 59% of Chinese company websites enabled users to access investor relations information in one click from the home page. While the difference may in part be a result of comparing the ease of availability of annual reports with ease of access to investor relations-type material, the higher availability of an internal search option box to enable the search-dominant users to access the reports may also be responsible. Alternatively, these results may indicate that formal reporting documents play a smaller role for charitable organisations than for for-profit organisations.

To determine the ease of access of the annual reports and annual reviews through the internal search engine, and the accuracy of the engine, four key words/phrases were input to assess whether the document was found. As is apparent from Table 5.4, Panel A, while the phrases ‘annual report’ and ‘annual review’ generated accuracy rates of approximately 80%, those that incorporated an impression of financial information such as ‘accounts’ and ‘financial statements’ generated accuracy levels of approximately 60%. Again, this may suggest that financial information per se has less importance in charity reporting.

Table 5.4, Panel B reports the results in relation to Kovach et al.’s good practice guidelines of online accountability disclosures (2003). All charities explained their charitable intentions and mission; 99% also provided a description of their activities with which to fulfil these intentions, of which 86% actually provided detailed discussion of these activities. As a measure of governance, 77% identified key organisational members, including trustees, and 52% explained their organisational structures and who the key decision-making bodies were. With reference to organisational transparency, only 5% provided minutes of the meetings of the governing board and senior management, and none considered traditional internal information to be significant enough to make explicit their disclosure policies. Thus, while organisations universally provided contact details to help initiate two-way communication and, in turn, raise organisational transparency (Gutteling and Wiegman 1996), there was little effort to convey overarching transparency practices by publicising disclosure policies or providing ‘internal’ meetings material online. Finally, as a measure of accessibility of the Web information, five organisations that dealt with beneficiary and support groups from other countries provided information in a second language, although it is perhaps important to recognise that as UK-based organisations, this was not a significant consideration for a large proportion of the charities included in this research.

5.5 CONCLUSION

Table 5.1 indicates that 96% of the top UK charities included in this research had their own website. In most cases, the websites were professionally developed with appropriate website presentation and web page design, features that collectively enabled ease of use. These practices compare very favourably with those in the corporate sector and are arguably better than those found in the public sector.

Nonetheless, in relation to accounting and accountability information, the widespread use of the annual report in website communication was not apparent, with approximately 70% of charities making their annual report available on their websites (Table 5.4). Once again, charitable practices appear to fall between those of the private and the public sectors, and the difference in results compared with private sector organisations may be explained by charities use of the Web pages as a means of communicating with external stakeholders rather than through the formal documents.

This indeed appears to be the case in relation to the activities-type information that was analysed using the approach adopted by Kovach et al. (2003). Almost all charities in this research provided descriptions of their activities, with most also providing detailed discussions of these activities. In the light of the volume of information presented on the charity websites, it was not considered feasible to examine the nature of this information more specifically within the categories ‘descriptive activities-based information’ and ‘performance information’, as captured with respect to the annual reports and annual reviews in Chapter 4, and thus the quality of information presented in terms of accountability is unclear. Disclosures in relation to governance-type activities in the sector appeared to have somewhat stagnated since the Kovach et al. (2003) study, with limited information on key decision-making processes and organisations’ disclosure policies being found.

6. Analysis of interviews with key charity personnel

6.1 INTRODUCTION

In an attempt to explore further the issues raised in the empirical analysis of the charity annual reports and financial statements (hereafter referred to as 'annual reports'), annual reviews and websites (see Chapters 4 and 5), interviews were arranged with key personnel from a number of the top UK charities. Initially, the researchers contacted 68 charities by telephone, explained the scope and purpose of the research and requested to speak to a representative from the charity who had an input into the preparation, including form and content, of the charity's annual report, annual review and/or website. Owing to time, travel and cost constraints, the charities contacted were based in locations that were reasonably accessible to the researchers. Representatives from 14 charities eventually agreed to be interviewed, but it was possible to arrange interviews with representatives from only 11 charities. Although the interviewees came from a range of backgrounds, including finance, marketing and communications, they each had significant input into the preparation of their charity's annual report, annual review and/or website.

Given the difficulties of gaining access to senior charity representatives, the potential sensitivities of the matters being discussed, and the desire for the interviewees to be as candid as possible, each representative was informed (prior to agreeing to be interviewed) that the interviews would be reported in a manner where specific statements could not be attributed to particular individuals. It was considered that such assurances were necessary to increase the number of participants and the quality of participation. A semi-structured interview approach was adopted and each interview lasted approximately one hour. The interviews were conducted by both researchers, and each interviewee allowed their interview to be recorded on tape. Each interviewee has been given a unique reference to enable the reader to identify comments from the same interviewee (without naming the charity). While this approach provides an opportunity for an in-depth analysis of many specific issues, it only gives an insight into that particular organisation and it is dangerous to assume, therefore, that the findings apply to all charitable organisations. Consequently, the findings may not be representative of the sector as a whole.

This chapter reports the results of the interviews conducted with the charity representatives. The next section provides a brief description of the interviewees' organisations. This is followed by a discussion of the issues raised during the interviews along six key themes:

- the concept of accountability in practice
- the role of annual reports and annual reviews as mechanisms of accountability
- the content of annual reports and annual reviews
- the content of operational managerial accountability-type disclosures
- sector influences on the disclosure of charity accountability, and
- the role of websites as mechanisms of accountability.

The chapter concludes with some points for consideration by the Charity Commission and the sector as a whole.

6.2 ORGANISATIONAL CHARACTERISTICS

Each of the charitable organisations represented by the interviewees:

- falls within the traditional definition of a charity
- is immediately recognisable as a charity
- is well known in the public arena
- is a fundraiser, in that it relies extensively on public support, although other income such as governmental income and trading income also forms an important part of its income stream, and
- is concerned with improving the welfare of individual groups in society (see Table 6.1).

Table 6.1: Interviewee's characteristics

Interviewee	Nature of the organisation's charity activities
A, B	International development
C	Provision of social services
D	Health
E	Health
F	International development
G	Provision of social services
H	International development
I	Health
J	Civil rights and law
K	Combination of international development, health and provision of social services
L	Provision of social services

6.3 ACCOUNTABILITY IN PRACTICE

While one interviewee preferred to use the term 'responsibility' in place of 'accountability', all interviewees considered accountability to be more than just accounting, and saw it as transcending formal reporting practices. Specifically, the interviewees considered accountability in the context of stakeholder analysis and, therefore, identified a number of distinct stakeholder groups to whom management was accountable, including: the key roles of donors and supporters (upward accountability); and beneficiary groups and the public at large (downward accountability), in their capacity both as recipients of the charitable services and as supporters of the charitable activities.

> *We would consider ourselves to be accountable to anything from as broad as the general public; lots of our messages are for anybody and everybody...but if you ask anybody here, it would be the beneficiaries in terms of the group that we feel most accountable to, in terms of why we're here.* (Interviewee E)

> *The main stakeholders: the service users, the donors, the government and local authority commissioners in our case as a service delivery charity, staff, volunteers, trustees, and all of those people who have an impact and are interested in what we are doing, but ultimately we are there for our service users.* (Interviewee G)

> [We are accountable] *to our beneficiaries first and foremost...But we must also be equally accountable to the carers. But we cannot ignore accountability in a business sense – our funders.* (Interviewee D)

Upward accountability (ie accountability to donors, supporters and other fund providers), as anticipated, was described in terms of how the organisations used and spent their money, enshrined in terms of the need to demonstrate transparency and an appropriate use of the funds provided.

> *We are obliged by our management team to be accountable and as transparent as we can possibly be…* [we are accountable to] *the supporters because we have a moral obligation to use their money in the right way and to be accountable to them for the money that has been used.* (Interviewee A)

> *I think the process of producing the reports, which ultimately come from the trustees, is…to sort of make sure that, end to end, the charity is accountable internally, but then we are accountable to donors, trust funds and anybody else who is committed in one way or another. Now…we should be able to, need to be able to, show that the way…the charity uses and spends its money…is transparent…to people who are committed to or investing in the charity…first and foremost they can see where that's going.* (Interviewee L)

Upward accountability, as apparent from the sample statements, as expected, was principally discharged through formal reporting systems in which information transcended the actual accounting information to non-financial information.

> [They] *demonstrate how they* [management] *are using resources they have been given to further their objects; and so in part what a formal report does* [is explain], *either in numerical ways of saying under what tags did we spend our money, or in the trustees' report,…what…has happened as a result of spending money in that area.* (Interviewee G)

Accountability to the beneficiary and user groups, on the other hand, was broadly centred on discharging information to these stakeholder groups about the different services and facilities that were available to them, and/or taking into consideration their expectations and circumstances.

> *And so the website, our website is very much an externally focused communication tool, fundamentally to help people with two questions. One is how we can help them; we wouldn't be here as a charity if we didn't do that to try and make sure that people who need our help and assistance – and we have 50,000 people every year – can find out the information that they need to know.* (Interviewee L)

> *We are obliged by our management team to be accountable and as transparent as we can possibly be, and always to be…referring back to people on the ground – Is this what you actually wanted? Are the outcomes satisfactory? Is this what we perceived in aid and in help? – so that you're not just giving something to people, you're actually filling a specific need. It's an informed process.* (Interviewee A)

In one instance, however, the interviewee from an international non-governmental organisation also commented on the use of a financially driven theme of accountability akin to that for donors and fund providers in the context of downward accountability.

> *Downward accountability is very difficult to highlight. It's not enough, whether in printed format or electronically, just to show pictures of the programmes that are running in those countries. But then the question is – and I would like to see more downward accountability – how far down the line do you take downward accountability? I think that is something every charity will need to assess on an individual basis, and how easy it is for them.*

> *Because talking to other charities, some of them even disclose the amount that the local workers are paid, to the local community, and that is perceived within that charity as a downward accountability; so I think there are individual choices that need to be made in the charity sector as well about downward accountability, and how* [far] *down the line you go.* (Interviewee H)

It became apparent from the interviewees that their organisations used distinct communication channels through which to discharge their accountability to the two broad stakeholder groups, namely upward and downward stakeholders. Specifically, the formal reporting systems in the form of the annual reports and annual reviews were used principally to discharge accountability to upward stakeholders, although these were also occasionally presented to the communities served, particularly if they featured in the documents. One charity also regularly sent its annual review to its beneficiary groups. Websites, on the other hand, performed at least a dual function and were targeted at both upward and downward stakeholders (where appropriate) with the main focus being to disseminate information about services and activities available in the latter case.

6.4 MECHANISMS OF ACCOUNTABILITY: ANNUAL REPORTS AND ANNUAL REVIEWS

In accordance with statutory requirements, all organisations produced an annual report and nine also produced an annual review. The two organisations that chose not to produce an annual review had done so in the past and had made a conscious decision to produce only one formal document, the annual report. Moreover, one charity that produced an annual review did so for an internal audience only and not for the public arena. This organisation, a federation made up of multiple national offices, reported and discharged its accountability to the headquarters through an annual review that was then also used to inform the content of the annual report. All the charities produced other communications materials with which to 'keep in touch with people' (Interviewee L) and through which to discharge their accountability. The nature of these documents, together with the frequency with which they were produced and the total package of published material produced varied among the sample organisations. Specifically, most charities produced regular newsletters/magazines on a quarterly or bi-annual basis and the charity that had abandoned the annual review produced an abridged version of the annual report, alongside its regular newsletter and the full-scale annual report.

In all cases (including those that chose not to produce an annual review), it became apparent that while the annual reports and the annual reviews and/or other communication mechanisms were closely linked together, they each fulfilled a distinctly different role and were targeted at distinctly different audiences, with the content and presentation within being tailored accordingly: 'They [the annual report and annual review] are largely similar, so in the annual review, the words are the same as they are in the annual report' (Interviewee E).

Specifically, the annual report as a statutory document was considered to be a 'statement of fact' (Interviewee G), that was targeted at larger donor organisations such as government departments, trust funds, benevolent funds, corporate donors and other partner (non-governmental) organisations.

> *There will be some who will need both* [annual report and annual review]*…Someone who would get the accounts normally would get the review…the accounts go to...any major donor, individual people who give large sums of money. Anybody that's financing particular programmes, like the EU* [European Union], *DfID* [Department for International Development], *Comic Relief. People like that would probably get our accounts, anyone we are accountable* [to] *in that way. And we'd probably send those people our annual review as well.* (Interviewee F)

> *We work very closely with...a number of benevolent funds…a number of corporate donors. Those sorts of organisations. I think they need that detail about what we're doing, and equally some of those who* [are] *coming on board for the first time.…Our fundraising team…may need a level of granularity to talk about the work that we are doing and how we are spending our money, how we're raising our money.* (Interviewee L)

Reports with detailed financial information were believed to be of interest to those groups of stakeholders who were likely to have the ability to digest that level of detail. Moreover, the reports were considered to be important reference documents for those groups of donors who were likely to engage in formal financial assessment and monitoring and evaluation, to enable them to account back to their constituencies and, therefore, to enable charities to establish and strengthen working relationships with their stakeholders.

> *There are different sorts of accountability…we have to have the accounts and the AGM and the formal things – functions of the laws of the Charity Commission.…If you're applying for a grant and they* [the funder] *think it's solid and you know what you're doing and you're reporting properly,…in a way* [that] *would generate new funds.* (Interviewee F)

> *I wonder how many people actually have anything to do with the annual report and financial statements who are not actually involved in the direct governance of the organisation itself. It's limited, I guess, to the sophisticated trusts...those sorts of people who analyse them* [the reports] *looking out for reserves and that kind of thing. There are relatively few other people who aren't in the council…who'd be interested. (Interviewee I)*

> *I think bodies of organisations, especially if they have donated money, they want to look at monitoring and evaluation impact – look at it to see what we have been doing so that they can give feedback to the people that they are accountable to – so I think it's those levels of accountability. They are needed by certain bodies, but more for monitoring and evaluation types of situation, rather than the person on the street.* (Interviewee A)

In addition, annual reports appeared to be viewed as a tool with which to assure organisational stakeholders that the charity responded responsibly and professionally and that funds were not misappropriated; and indeed some organisations made this point explicitly.

The annual report lets people know that we haven't done anything inappropriate with their money, but the annual review explains how we have used it. (Interviewee D)

The annual report…is not the most useful…but it does give assurance that things are allright even if it is not read. (Interviewee J)

Annual reports were perceived to form one part, albeit an important one, of the overall communications package to this group of stakeholders, who also received the annual reviews (or their equivalents) alongside other documents produced specifically for the grantors and major fund providers as part of the contractual arrangements with them.

These things [annual reports], *they act as an underpinning or a rapport or something like that, that without them you couldn't have the rest and, equally, they in themselves are not enough on their own, really you need both* [ie annual report and annual review]*.… People read the annual review, whereas the report and accounts, I think, is almost a reference document – it's a statement of fact, if you like, and therefore I think it needs to be there and it almost underpins other things.* (Interviewee G)

We are forever producing reports for individual funders … we are incredibly accountable to all our different funders individually, all over the place both locally and nationally. In fact we spend too much time reporting back to individual donors, I also don't know if the funders actually do anything with the information we send them. (Interviewee J)

The annual review, on the other hand, was considered to be the more 'user-friendly' document (Interviewees E and K) that was more read and used and aimed at the smaller donors, volunteers and supporters of the organisation, and beneficiary groups, where appropriate, and the public at large, alongside the major donors. It was indeed considered by some organisations to be the most important formal document produced, superseding the role of the annual report.

The annual review…for our purposes this is the key document…definitely the most useful and most important document that we prepare. It is something that people actually read and look at. This is what is important for our survival. We can tell stories and give real examples. (Interviewee J)

Extending to a wider audience, the general view of the annual review was that while the additional stakeholder groups were just as important as the large donors and fund providers, their needs did not generally include the presentation of detailed financial information, and that their interests lay principally with the difference that the charitable work of the organisation made to society. In other words, the traditional financial statements were considered to be inappropriate for this audience and qualitative, narrative information that relayed the work of the organisations took precedence.

But our volunteers, we wouldn't expect that they'd read through great details, which is really boring, which is why we do this fairly sort of simple, potted version. (Interviewee F)

Definitely different audiences I would say [for the annual reports and annual reviews]*. The grey version* [ie the annual report]*…we get a relatively small number of requests…it is there to fulfil obligations…grant providers who ask for this kind of information…whereas the beneficiary groups get the annual reviews with the pictures.* (Interviewee E)

[The annual report] *our colleagues in the marketing call the grey documentation, which is the statutory requirement….We do produce an annual review as well, which is the pictures version, which most people will see. Each of these reaches different audiences.* (Interviewee E)

One interviewee, from a charity that had moved from the production of a single annual document to a matched pair of an annual report and an annual review, made the following comments about the single document:

Rather thick wasteful document, which had the accounts and, you know, some narrative and pictures – which seemed a bit of a waste because it went to so few people. (Interviewee F)

Another interviewee, when considering the option to merge the two documents, commented:

I don't think we could put the two documents together that easily…we try to have a snappy review and also fulfil all the requirements of the SORP in the accounts. (Interviewee K)

Overall, two broad concepts, it appears, drove the distinction between the two types of reports. First, what was referred to as different 'levels' of accountability; and second, what can be summarised as optimising the use, and usefulness, of different communications channels. The first concept, the different levels of accountability, referred to accountability to the different stakeholder groups. Larger donors, who were more likely to engage in formal monitoring and evaluation, required and received the more detailed financial information, whereas smaller (though equally important) supporters, who were more likely to be interested in how the money was spent, received information about the charitable activities and impact. With respect to the second concept, interviewees were very conscious of the need to address and target the different layers of accountability with different methods of communication. Specifically the communicators believed that a single mechanism would not serve all the different stakeholder groups and their differing accountability needs, thus different types of channels were required.

The gross mistake you can make in communication terms is to try and use the same document – that one size fits all, and it doesn't. And one thing that I do, do as a principle and [which] *I passionately believe in – you have* *to sort of temper your messaging, all your communication channels, to try to hit* [connect with] *the audience that you're trying to reach.* (Interviewee L)

The two organisations that chose not to produce an annual review did so because they believed that it took on the role of a marketing/publicity type of document. In one case, the charity chose to market itself through a different type of publication (a regular newsletter) and different types of medium, in place of the annual review.

So the review to me is less about accountability [and] *more about marketing yourself as a charity. And* [that is] *the reason why they tend to be glossy and bright and pictures, and smiley happy people being helped by the charity…*[and] *less about how we planned or spend or raised* [money or] *whatever it may be.* (Interviewee L)

In the second case, following a formal assessment of the audiences that received the different communications materials, the organisation felt that its annual review, aimed mainly at donors and supporters, had essentially become a publicity document and that a combined document that married the financial information to the activities and impact of the organisation would enable it to discharge accountability to its donor groups more appropriately.

What happened two to two and a half years ago, we went through our users...our different audiences, for all our communications materials, and we realised that our annual review – because at the time we were producing an annual review and annual accounts – was actually a publicity document that was used for fundraising events; whereas the report wasn't actually targeting the right people, because we realised that the readers were mainly the donors and supporters. So…we have revisited the way we do things, and over the last two or three years we have focused on producing only one publication, geared towards donor groups. (Interviewee H)

This charity, it must be noted, also produced an abridged version of its annual report for its smaller donors and supporters who were likely to be less concerned with the detailed financial information. Overall, the organisation, it appears, followed very closely the sense of the 2005 Statement of Recommended Practice (SORP) (Charity Commission 2005), in that its annual report sought to discharge accountability comprehensively, both through the financial statements and the narrative information that supplemented them and, in the absence of the annual review, it incorporated all its narrative accountability information into its annual report.

6.5 CONTENT OF ANNUAL REPORTS AND ANNUAL REVIEWS

Addressing accountability to different stakeholder groups, opinions about the narrative content of the annual report and that of the annual review (or equivalent), differed between the respondents. On the one hand, some interviewees believed that the content of the two documents was broadly similar, but that it was approached from a different perspective in each case: 'The annual report and the annual review are two slightly different perspectives on the same thing' (Interviewee G).

On the other hand, the contents of the annual report and annual review were considered to be significantly different, with a focus on financial information in the annual report and narrative information in the annual review.

It's completely different information, I mean,…the annual accounts are basically...not much more than a document containing the full accounts, which is our statutory obligation...we would expect that people are giving very large sums of money or government...would want to see the detail. (Interviewee F)

In the past, when this charity produced the two documents at different times of the year, the annual report had contained narrative information to make it a 'more interesting' read, but with plans to produce the two simultaneously as a matched pair for the most recent financial year, this practice was expected to change.

Overall, with the exception of Charity H, which chose to produce only the annual report, the annual reports were considered to be the 'grey' documents (Interviewee E) with 'dry statements of fact' (Interviewee G) that covered charitable activities in a more 'complete' manner with coverage of all core areas of activity.

The annual review is more of an impact statement, it's case studies, it's talking about how did you make a difference, whereas the annual report and accounts tries to do it in a more complete way. (Interviewee G)

In spite of their 'grey' nature, following the publication of the 2005 SORP (Charity Commission 2005), several charities sought to incorporate a trustees' annual report that reflected the 2005 SORP recommendations, as interviewee H, for example, explained.

Over the last two years, the format that we've chosen is very much conforming to the 2005 SORP. It is showing what we said we'd do, what we've done and what we'll be doing in the future. For us, the process was very much dictated by the 2005 SORP. We decided that it was a format that, because it was adopted by other charities, it would have given the end users the chance to compare the charities and be in a better position to show…how we are doing and how well we're doing. (Interviewee H)

Interviewee G also had a similar approach.

> *We changed the layout of our report and accounts to say: What did we say we would do? What have we done? And then, what we've also done in this year's* [annual report] *is to say this is what we are going to do in 2007/8. And when we produce the accounts 2007/8 we will say: What did we say we would do, and what have we done? The 2005 SORP led the way in saying the trustees' statement needs to be less woolly and a bit more punchy.* (Interviewee G)

One interviewee explained that their organisation was working closely with its auditors on how best to incorporate the recommendations and the sense of the 2005 SORP into its narrative report.

> *SORP actually demands quite a lot of qualitative thinking as well...and we're seeking advice from auditors in terms of how, if you like,* [we can] *better follow SORP....There is a sense in the SORP about explaining more of the story.* (Interviewee E)

Not all organisations, however, referred to the influence of the SORP in their reporting practices. These differences in results may help explain the results of the analysis of the annual reports in Chapter 4, which recorded a significant absence of operational managerial accountability information. It appeared from the interviews that the divergences from SORP in charity reporting practices may have stemmed from the different authorship of the content of the annual report. On occasion, those from non-financial backgrounds *may* have been less familiar with the new developments of the 2005 SORP and, consequently, its recommendations and recent changes did not filter through into the reports.

Compared with the annual report, the annual review sought to capture more vividly what the organisation was about and 'what it was, as an organisation, doing' (Interviewee F). Specifically, consistent with the Charity Commission (2004b) view that the primary objective of the annual review was to provide general publicity for the organisation, the reviews emphasised case studies, individual stories and pictures to make 'live' the activities and impact of the organisations.

> *What you won't see in the annual report are case studies. We'll talk* [generally] *about improvement of education in Africa...whereas what the annual review will say* [is] *this is Charlie…he wasn't able to go to school because…and now, because of the...*[charity's work]*; John went to school and he is now a doctor. And so...both documents talk about the same thing, but in a completely different way. The way in which the annual review talks about it I think…is inappropriate for the annual report because it's not that kind of dry statement of fact, but in the annual review, it is much more readable and it's much easier to understand.* (Interviewee G)

> *The key thing is that it provides case studies – for what we do, this is very important as they are real examples of the impact we have had. It puts flesh on our activities.* (Interviewee D)

One interviewee from a health charity, whose annual review was aimed principally at beneficiary groups, commented as follows.

> *They're* [the annual report and review] *largely similar, the words are the same as they are in the annual report... so the real difference is the pictures and the numbers… and it's more colourful....I think in terms of beneficiaries it's nice just to be able to see someone – just see a photo – it makes all the difference doesn't it? So we put* [in] *a lot of effort to make sure that it communicates the right message.*

> *Not quantitative reporting, more like storytelling.…The photos on the case studies and the good stories are* [there] *because they are the ones that speak to people a bit more.* (Interviewee E)

Moreover, the interviewees stated that their organisation often made a conscious effort to minimise and simplify the financial information presented and make it a visually more attractive document through the use of colour and other presentational formats (as observed in Chapter 4). In addition, emphasis was on making the document an interesting read, one that captured the attention of their audiences.

> *We try to make the annual review much snappier, more colourful and, as few figures as possible and as many graphs as possible, just to highlight the main headline figures, rather than getting into the detail of notes.* (Interviewee K)

> *The idea in each of the last few years that we've been doing this* [preparing an annual review] *is to try to make it more interesting, a kind of document that will interest and inspire people and give a more holistic view of what you are doing; rather than just a turgid report that we have to produce.* (Interviewee F)

> *We try and make it dynamic; we talk about people...This is us talking to our supporters, and the sorts of things that we put in will be designed to show how their money is being spent and how we're helping people. And yes, of course, there is a bit at the back saying, if you're interested, you can still give us a bit more. But fundamentally what we're doing…is to show people what we're doing and how their money is being spent. Yes, it is a form of accountability…we write it in a way that I believe will interest them and grab their attention and imagination and make them want to read it.* (Interviewee L)

In addition, an added advantage of the annual review was that it enabled organisations to target their audiences in the manner best suited to them. On the other hand, the annual report, the more formal document, was considered to be more restricted in this capacity.

> *The nature of the annual review allows us to target a wider audience and provide information that they want without the straitjacket that the annual report places on you.* (Interviewee D)

> *It* [annual review] *gives us freedom to explain what we are doing now, and not things we are starting now, but explaining to key stakeholders about how projects are progressing. It gives an opportunity to tell funders, partners and potential funders what we have done and what we can do....We can tell a story about what we do, what a difference we have made and what we can do for others. We are not constrained by a statutory format – we have a chance to tell our story in a readable, accessible, impactable way.* (Interviewee J)

With the intention of making the reports more interesting, what also became apparent, however, was that charities self-selected items for publication, and featured activities that were likely to have had more impact and/or relevance.

> [The review's] *perspective is different and therefore will give more lineage to the bits that have had the biggest impact, not necessarily what you have spent the most money to achieve. Say you've got the MPs to pass an early day motion that may have a huge impact, but the resources you have had to spend may not have been very high; whereas with service delivery you will spend a lot of money on and for the people you're supporting.* (Interviewee G)

Overall, the differences in opinion about the narrative content of the two documents serve to explain the differences in the results observed in Chapter 4. A significant proportion of the annual reports did not capture information about chatities' activities; instead, this information was presented in a separate document, the annual review. The broad rationale here was that the two documents sought to fulfil different communication functions and address different layers of accountability. Even though a proportion of charities – as noted in both in the analysis in Chapter 4 and the interviews – had taken into consideration the new developments of the 2005 SORP (Charity Commission 2005), not all charities had adopted this approach.

A further consideration that arose with the annual review was that, because of its capacity as a non-statutory document, charities were clearly selective in what information they presented and how they presented it. They focused on areas that had had greater impact and/or were likely to be of interest to readers. This has the potential to change the document into what Interviewee H and the Charity Commission (2004b) described as a publicity document – and one that consequently moved away from its role of formally discharging accountability. Combined with the instances in which the annual reports discharged financial accountability only, this practice has created a gap in charities' discharge of accountability through non-financial information. The role of initiatives such as the Charity Online Accounts Awards, it could be argued, have not helped in this matter since they have, in relation to narrative information, actually promoted the use of public relations-type, 'story-telling' material to draw supporters to the work of the organisations (Charities Aid Foundation 2007).

6.6 OPERATIONAL MANAGERIAL ACCOUNTABILITY: ACTIVITY-BASED AND PERFORMANCE-BASED INFORMATION

In an attempt to understand more clearly the results of Chapter 4 in relation to operational managerial accountability, the interviews enquired into the differing levels of information not only about activities-based information but also about performance-based information that measured results. It became apparent that several interrelated views and opinions served to explain the discrepancy in practices observed.

Differences in definitions of terms

First, there is the problem of definition of terms. Although charities are increasingly assessing themselves against the objectives that they have set in terms of the impact that they are having, their perceptions of what constitutes 'impact' and the results of their 'activities' differed from the definitions adopted in this study. The following quotation illustrates the terms that one charity used to describe what it is doing.

> *To be accountable internally, so it's about looking back at the objectives that we set ourselves, and how we performed against those objectives and, more importantly, what impact are we making on the lives of poor people, because that's why we exist.* (Interviewee B)

Specifically, what this research study classifies as 'activities' were actually considered to be a demonstration of 'impact' by the interviewees. For example, in response to the question 'What does the organisation seek to report on its impact in the reports?', one interviewee responded:

> *We'll often put in the quotes something like...like here: saving lives around the world; what we were doing – building cyclone shelters, coping with drought in Kenya.* (Interviewee F)

Legitimacy gained through the work, not through its effects

Second, and related to the first point, not only were activities equated with impact within the organisations, there was also a strong perception among some interviewees that external audiences also understood the implicit relationship between activities and impact, and hence it was sufficient to focus on the former.

> *Well, let's take the incidence of* [activity X] *in Africa....So for me, 'impact' is that we have an education project in Kenya, and that we are facilitating* [activity X]*, which I think is understood by society. They get it – that means that* [a certain group of disadvantaged people] *are getting an education and therefore have a career. So you don't actually need to say that meant 500 people went through school.* (Interviewee G)

In other words, as explained in Chapter 4, organisations sought to achieve legitimacy based on the work that they carried out to make societal changes, with an assumption that this automatically translated into the kind of societal change desired.

There was a perception also that engaging in the activities themselves (ie working in the specific areas chosen by the organisations) constituted accountability to society in itself, because the organisation was taking responsibility to change and develop that same society.

> *Most* [charities] *are there because there is a need that somebody else is not meeting.…and when they're talking about discharging accountability, I think it's important to remember that we do it because nobody else is doing it… in my opinion, doing the work is a discharge of responsibility, which is to me another word for accountability.* (Interviewee K)

It appears that the value-driven nature of charitable organisations played a key role, by means of which organisations sought to achieve legitimacy for their activities and services.

Problems with assessment
Third, and consistent with previous research into impact assessment, interviewees voiced concerns about the resources needed for such exercises. Interviewees were concerned about spending too much time and resources in undertaking evaluative exercises, and this problem was considered to be more acute where they relied upon volunteer groups and staff to provide relevant data.

> *When we talk about discharging accountability, I do have a little difficulty with that, because I think if you are not careful we can get so busy explaining ourselves that we just don't get on with the job.* (Interviewee K)
>
> *We produce…data that shows how many people we're helping at any one time, the demographics, the profile of those cases; and we could* [work out] *how much it costs to do a case.…We can get that information if we have to…,but we tend to say pragmatically* [that] *it's okay if they* [the branches] *collect financial information once a year, because that way we're giving them as much time as possible to do the work that they need to do, which is why they've volunteered.* (Interviewee L)

Interviewees' views were also consistent with 'attribution theory', which assumes that people try to determine why people do what they do. A person seeking to understand why another person did something may attribute one or more causes to that behaviour. The interviewees believed that it is difficult to identify the exact impact of an organisation in a world in which there are multiple collaborators and competitors, whose activities also influence the beneficiary groups and communities served; and that it is, indeed, inappropriate to take as one's own the final impact on these communities.

> *I think it would be wrong to say we are enabling people to be educated, because clearly we are not the driving force behind it....So for me, impact is that we have an education project in Kenya....But there's a big chain that sits behind that…we're just helping them to get there and I think the public are pretty switched on in this way – they understand that.* (Interviewee G)

Several interviewees took the view that it was often difficult to segregate the effect of the particular organisation's efforts on beneficiary communities, and simply accepted that impact assessment was difficult to assess and judge in general, and that more work was required in this area to take the sector forward.

> *It's not easy to do that. We can do it in the social centres by saying that we gave a bed to X number of people, or there were X number of elderly people living in a care home, with X number of children in our children's home. We can put statistics to it, but that's not just what we're about. It's not just about giving somebody a bed in a hostel – it's about trying to turn their lives around so that they don't need a bed or a hostel any more, that they can move back into society, which they have come out from because of various circumstances. And yes, you can measure that, but once they're gone, we don't always know where they've gone or what they're doing.*
>
> *But we can give instances of, for example, a long-lost brother or long-lost mother or whatever. We can tell stories about that and that interests people,* [and] *that's how we get around this kind of, this ideal of what is it that we are actually doing.* (Interviewee K)
>
> *And then what other charities have done is excessively try and evidence things in a statistical way – we'd say some things that you do are appropriately measured in a quantitative statistical sort of way. But in other things like campaigning you can't really boil that down to numbers – what you really need to do is talk about it ... and that is a better form of evidence than saying 80% of MPs agreed that we were a jolly good thing, because that is meaningless.* (Interviewee G)
>
> *Where I think we can do better is on the impact side of things, and telling the story better. … I think we're missing a trick by not using the opportunity to do so. It's less about following the word of SORP, and more about really making these documents interesting and bringing the research to life. And that's a really big challenge in terms of how to do that.* (Interviewee E)

Selectivity of the material used in formal documents
Fourth, occasionally, impact reporting may not have come through in the formal documents because charities, as mentioned earlier, were selective in the material that they published and emphasised features that would be of interest to external audiences (see section 6.5).

> *I would hope that a story about one individual and how he has been helped is more interesting than a detailed breakdown of statistics in terms of 'we have helped this number of people'.* (Interviewee L)

In other words, legitimacy was earned more through publicity-type disclosures than formal accountability-type measures.

Indeed, during the discussions it became apparent that several organisations did operate formal auditing and evaluative exercises to assess the impact that they had had, and to make themselves more accountable. These internal facilities, however, were not necessarily apparent in the formal documents produced for external audiences.

> *We've got financial auditors coming from outside, and also auditors that come into various projects and departments, and they are wanting to know about every piece of paper. So I think there's a lot of auditing going on for accountability.* (Interviewee A)

Positively, most organisations seemed to accept this challenge and embrace it with a view to developing internal facilities for accountability further and then relay the results of those to audiences externally.

> *I think as a sector we are learning how to do impact reporting and as a charity we have some way to go still. We have lots of sector…conferences, seminars, with really good speakers. It is quite a small sector...you can be in touch with people who designed the SORP, and seek advice from people, and share ideas in a real way. As an audience we have been told: this is output, outcomes, impact on people ... but we have yet, on the whole, to bridge that gap and doing that actually in the annual review.* (Interviewee E)

> *Personally I would like to see charities going down the route of showing impact – not in terms of numbers and figures, but showing how effective they've been. What kind of difference they've made. Although it's difficult to quantify, and difficult to give an overview of what the charity has done.* (Interviewee H)

> [Charity J] *is aware of the debate over performance information – we would like to be able to report back on what we have done and also to look forward. The intention is there but we just haven't got that far yet.* (Interviewee J)

In addition, one charity was in the process of developing an impact report alongside its annual report and review, and the head of marketing and communications was in discussion with a charity consultant, and the senior management and the board about this development.

6.7 SECTOR INFLUENCES ON THE DISCHARGE OF CHARITY ACCOUNTABILITY

In order to understand the influential role of recent developments in the sector to encourage the discharge of accountability, the authors inquired into the specific roles of the 2005 SORP (Charity Commission 2005), the Summary Information Returns (SIRs) and the Guidestar UK website. As discussed in section 6.5, several charities had sought to follow the sense of the SORP in relation to the discharge of accountability and the role of the trustees' annual report in so doing. Practices in this instance were not universal and the 2005 SORP was not actually considered to be the driving force behind the internal processes that enabled the final external discharge of accountability.

> *The internal processes are useful, and ultimately this is what goes into the annual report because it is a process of looking back and saying: We didn't do quite so well in that, why didn't we do so well? What was the challenge? What were the blockages? What's the learning out of this? And I think that is what we find useful.* (Interviewee B)

All interviewees agreed that the Charity Commission, both as a regulator of the sector and in its capacity as the author of the SORP, enabled the sector to earn a level of credibility that would have otherwise been absent. All organisations saw compliance as a benefit to themselves and the sector as a whole, and also believed that the uniformity of data presented among the individual organisations aided external audiences to analyse and compare the information presented.

> *All those things give the public confidence that the charity is not using the money to launder drugs, in the extreme. That's really important for the sector so that it can demonstrate that it's absolutely above water.* (Interviewee G)

> *I think the benefit outweighs the risks of the uniformity even if no charity perfectly fits that uniformity.* (Interviewee K)

The SIRs did not receive the same welcome as the SORP and were considered to be less useful. While all charities complied with the requirements of the SIR, the document was not seen as a key vehicle for discharging organisational accountability. Concerns voiced were about identifying the real audiences of the SIR, and its rigid structure which meant that charities were unable to incorporate their richness and value.

> *I don't really think people really look at the Charity Commission website. Certainly I am not aware of any response, any feedback over the three years or* [thereabouts] *that we've been doing it for.* (Interviewee K)

> *I think what we're trying to do is impossible – what it's trying to do is squeeze the richness and diversity of society into this kind of straitjacket. In doing it, it produces something utterly boring at the end of it.* (Interviewee G)

In addition, despite the rigid nature of the document, some interviewees believed that the pro forma could be completed without much ado, and that as such it did not truly assess charity accountability. The absence of feedback from the Charity Commission also led interviewees to question the worth of the document.

> *Not very useful....You get to the end of it and everybody runs out of words or chooses a different bullet point that will fit.* (Interviewee K)

> *We certainly complete it....I know we've not had too much feedback after we had submitted it....It is something that we will continue to do, but…there is no value-added for us.* (Interviewee E)

When discussing the role of the website in terms of discharging accountability (see section 6.8), the organisations explained that the Internet played a role not only through their own websites but also other related websites, such as the Guidestar UK and Intelligent Giving that comment on charity activities and performance.

> *The website plays a huge role, because we spend much more time on it, not only updating the content already there, but making sure that the content relates to accountability; and how effective we are is also publicised and published on the websites such as Intelligent Giving or Guidestar or other websites.* (Interviewee H)

All but one organisation amended their profiles on the Guidestar UK website, and while the notion of comparison between organisations was considered to be increasingly important by some organisations, the role of websites encouraging such comparisons was questioned.

> *More and more people are going to be using the website to compare charities to see how the charities of their choice are effective in achieving what they said in their mission statement.* (Interviewee H)

> *We have some concerns with the websites that provide generic comparative information about different charities – they don't seem to have found their feet just yet. Very often the information is just wrong. The idea is a good one and you can see how it is useful.* (Interviewee J)

Information for both the Guidestar UK website and the SIRs typically came from existing sources of information within the organisations, such as the annual review or annual report or other regular publications and, therefore, these two recent developments did not influence organisations' accountability practices or encourage further accountability.

6.8 MECHANISMS OF ACCOUNTABILITY: WEBSITES

All organisations interviewed had an active website and in all cases the Internet was considered to be a critical mechanism of communication, both for reaching out to the organisation's audiences and the audiences' choice of communication mechanism; and reaching out to upward stakeholders as well as downward stakeholders (where appropriate).

> *I suppose that's now the gateway to the charities … there is a lot of information on the website – that's pretty much our shop-front.* (Interviewee D)

> *The website is a pan-organisation communication tool.* (Interviewee G)

> *I think for the general public, the website is the main instrument.* (Interviewee A)

In addition, the website, where appropriate, had become the primary method of communication with downward stakeholders.

> *It's* [the website] *not just about how we can help people, although that is fundamental. I think that if we had no other thing on the website, we would have that.* (Interviewee L)

> *The website is for our service users...or those who think we might be able to help and want to find out more information about us.* (Interviewee J)

The Internet was considered to be a useful communication tool for existing supporters and beneficiary groups, and was also considered to be a critical means with which to target potential audiences (ie potential supporters and potential beneficiaries).

In relation to upward accountability, besides providing the formal reports online, charities consciously sought to provide information about their charitable intent to enable supporters to understand and appreciate the nature of their work without recourse to formal documentation. This included their activities, and cases and stories of individual beneficiaries. Downward stakeholders also benefited from such information, together with factual information about the activities and services available, as evidence of the differences that the organisation made/makes to individuals and communities in a similar situation to themselves.

Taking advantage of technology, some interviewees explained that they micro-managed their websites to target specific types of groups within the broader categories of upward and downward stakeholders. For example, one organisation, stemming from a religious faith, provides a section on worship and spiritual material, while another splits its supporter groups to capture schools, youth and the working population.

> [Charity K] *is trying to take into consideration things such as the younger population,* [which] *is more likely to look at websites. Actually, we've got a youth brand which is called...and they have their own separate website… young people will be funnelled towards that – the language is more their language.* (Interviewee K)

In other instances, organisations put up discussion forums and the like to enable website users, principally beneficiary groups, to contact others in a similar situation to themselves and to enable the organisation itself to interact with its stakeholders.

> *We will now think about the Web as a means of being accountable...I suppose that as we hope to have a feedback mechanism and discussion forums then this is us interacting with our stakeholders.* (Interviewee J)

The powerful role of the Internet was also apparent when at least four interviewees explained their plans to extensively redesign and restructure their websites which had simply evolved over time, to ensure that the organisation was accountable to both their upward stakeholders and their downward stakeholders, and that interested audiences (both upward and downward stakeholders) were able to access the information that they were in search of. As such, this practice was reflective of a business-like approach being used in the not-for-profit (NFP) sector.

> *The Web presents a great opportunity to provide more, and for people to decide what they want. But at present websites have grown and been developed in an ad hoc and haphazard manner. It might be better to even think about starting from the beginning rather than changing… what is already there.* (Interviewee D)

Overall, while there was no consistent pattern in how the website information was presented, one organisation, in anticipation of more and more supporters making a comparison between charities, adopted the 2005 SORP framework (Charity Commission 2005) in its Internet reporting to enable them to assess systematically how the different organisations are performing.

> *That's why we've adopted this form of accounting. We are giving people the option to see how we are doing in a very schematic, methodological way; in a way that shows what we said we would be doing, what we have done and what we will be doing.* (Interviewee H)

6.9 CONCLUSION

The objective of this chapter was to report the results of the interviews undertaken with a sample of key charity personnel in order to understand in more depth the external accountability practices of charities. The interviews focused on the role of charity annual reports, annual reviews and websites, and on the roles of the 2005 SORP (Charity Commission 2005), the SIR and the Guidestar UK website in influencing practices. The results here should be treated with caution as they are not representative of the sector as a whole, but rather of a sub-sector that fits the traditional definition of charities. Perhaps the decision by other members of the sector not to participate in the interviews is informative, in that it may indicate their reluctance to participate because they believe that the discharge of accountability to external stakeholders does not apply to them, or is not of interest to them, or that they are lagging behind in this field.

The interviews conducted indicate that, the annual reports and annual reviews of charitable organisations are aimed at upward stakeholders and the public at large while the websites focus on both upward and downward stakeholders (where appropriate). In one case, annual reviews are also targeted at beneficiary groups. In relation to the formal documents, where charities produce both an annual report and an annual review, consistent with the results of Chapter 4 that disclosures between the two documents differed, the interviewees reported that their organisations made very conscious decisions about the reports' contents and their nature, and that the documents fulfilled different functions. Specifically, while the annual report was regarded as the statutory 'grey' document dispatched to those to whom the organisations were formally accountable, the annual review, which was believed to be more read and used, was considered to be the more user-friendly document that enabled organisations to tell their story freely.

Two core and interrelated concepts, it appears, determine the shape of the annual reports and reviews of charities:

- the differing layers of accountability among the upward stakeholders (ie between the larger donors and fund providers and the smaller supporter and volunteer communities), and
- a fundamental theory of communication (ie using different types of publications and different types of media for different groups of audiences).

The sector, it appears, has very carefully identified the different types of upward stakeholders and has, therefore, used a series of different communication strategies with which to reach and target these specific audiences in order to maximise the communication impact. A key concern in relation of the discharge of accountability that has arisen as a result of this process, however, is the absence of a universal acceptance that the annual report, as stipulated by the 2005 SORP (Charity Commission 2005), is a mechanism through which to qualitatively discharge accountability. Many organisations consider the annual review, a principally qualitative document, to be the more important of the two formal documents produced. As a consequence, the Charity Commission's initiative to push forward the accountability agenda through the 2005 SORP has not had the intended universal impact on the sector.

The Charity Commission, as explained in Chapter 4, has up until now framed the concept of accountability in the form of the SORP, the focus of which has been on the annual report and traditional financial reporting. This development is perhaps a result of, first, the work of Bird and Morgan-Jones (1981), which identified a significant diversity in the financial accounting practices of charities; and second, the tendency to borrow practices from the private sector, where financial accountability is dominant. This financial accountability focus may have overlooked the differing needs and expectations of, and accountability to, charities' different external stakeholders and the resulting need for different strategies for communication. Moreover, the recent addition of the SIR appears to have added little value to either the sector or its external stakeholders in the absence of an identified target audience. Its rigid yet simultaneously fluid nature cannot reflect the diversity and richness of the organisations, and yet allows a simplistic completion of the process with limited 'real' accountability-type disclosures. Perhaps in the broader, more extensive role carved out by the Charities Act, the Charity Commission, rather than making incremental changes to existing practices and patterns, can revisit the charity accountability debate in a more holistic manner. It can commence with the basic principles of the different layers of accountability and the different strategies for communication, to identify workable and meaningful solutions.

Additional consideration also needs to be given to the nature of the qualitative documents produced alongside the annual report, such as the annual review, which are currently not mandated. At present, such documents, as highlighted by the interviewees, lie somewhere along an accountability and publicity continuum. Specifically, organisations self-select activities and cases to report about with the intention of making the documents more interesting and inspiring. While such approaches serve to encourage commitment to the organisations by both existing and potential supporters, the ultimate question of charitable effectiveness remains largely unanswered. Larger donors and fund providers may not necessarily be subject to this situation, as charities are directly accountable to them through the additional reports and information requirements that are part of their contractual arrangements. For smaller supporters and volunteers, however, an objective account of the achievements of their respective organisations is critical. The Charity Finance Directors' Group (2003) recommended the development of a voluntary code of practice for information disclosures in annual reviews, which is indeed supported by the results in Chapter 4, and one of the big attractions of the document, it appears, is its freedom to enable charities to include what best covers their respective circumstances. A solution that takes into consideration these conflicting interests needs to be found with the active participation of the sector, either by the sector itself or with its active involvement.

In relation to the discharge of accountability through impact reporting, the sector is aware of the need for further development and appears to be working towards this. Definitions of what constitute organisational activities and programmes and actual impact need to be reconsidered in some instances. The assumption that activities translate automatically into better and more developed communities and individuals may weaken organisational legitimacy with external supporters and fund providers, as well as with beneficiary and user groups.

7. Conclusions and areas for further research

7.1 INTRODUCTION

Accounting and accountability in not-for-profit organisations (NFPOs) have become a very topical subject in recent years, and numerous initiatives have been developed in the UK to take forward this agenda. This research contributes to the literature on charity accounting and accountability by examining how a sample of large UK charitable organisations discharge accountability through their annual reports, annual reviews and websites, and then substantiating these findings through interviews with senior charity personnel. This chapter summarises the key research findings, puts forward a number of recommendations to take forward the charity accountability agenda, and outlines areas for future research.

7.2 CURRENT CHARITY ACCOUNTABILITY PRACTICES

Charity accountability in practice

The interviews confirm that charities are aware that they have a duty to discharge accountability to diverse stakeholder groups and, in turn, a responsibility to account to these diverse groups. Among the stakeholder groups identified are: trustees; charity staff; volunteers; donors and funders; the government (both as a funder and an overseer of the sector); the general public; and, last but not least, the service users and their carers (as appropriate). In other words, consistent with NFP accountability literature (for example, Ebrahim 2003a), UK charitable organisations recognise the roles of, and the need to account to, both upward and downward stakeholders.

Overall, these results suggest that – contrary to a normative model of altruistic activities, which assumes that NFPOs operating in the interests of the public good must necessarily operate honestly and optimally to maximise organisational impact – UK charitable organisations recognise that they have a duty to account to their stakeholders, and that their morally driven agenda and intended philanthropic activities are not a substitute for such responsibilities. Indeed, as discussed below, charities have various communication strategies in place with which to discharge accountability to their stakeholders, particularly their upward stakeholders, who are generally the more natural audiences for such strategies. It is disappointing, however, that 36% of charities contacted did not fulfil their statutory obligation and provide a copy of their annual report upon request.

Mechanisms of accountability

Inquiring into the mechanisms of accountability with the interviewees reveals that charities use their annual reports and annual reviews to discharge accountability to their donors, funders and supporters, the public at large and occasionally, where appropriate, to service users. Some charities choose to produce both an annual report and an annual review, but others rely exclusively on an annual report, possibly as a result of the Charity Commission's encouragement to provide both activities-based and achievements-based information in the trustees' annual report. Regardless of the preferred presentational format, and consistent with the literature presented in Chapter 2, the consensus was that financial information provided in annual reports plays a limited role in the discharge of accountability and that it needs to be substantiated with non-financial, narrative information.

In contrast, charity websites appear to have a wider role, being directed at both upward and downward stakeholders. Unsurprisingly, the Internet is seen as a having a progressively significant role in charity communications and the website is viewed as the 'shop-front' for the charity.

Overall, the interviews suggest that while funders and financial supporters comprise an important stakeholder group, they are not the key defining group as suggested by the Accounting Standards Board (ASB) (2007). Other significant groups include the public, the government and the beneficiary groups and communities. The annual report, which is the accountability mechanism promoted by the Charity Commission and the ASB, is perceived to have a limited role for this latter group of stakeholders.

The annual report: an expanding role but reduced content

The results of the content analysis of the annual reports, when compared with Connolly and Dhanani (2006), who examined the 2000/01 annual reports of the largest UK fundraising charities, suggest that that charity accountability appears to have weakened over time. Specifically, the analysis of the annual reports included in this research indicates that charities provided lower levels of disclosure for a significant proportion of items included under each of the three themes of accountability (ie fiduciary accountability, financial managerial accountability and operational managerial accountability). This is despite: (i) an increase in the overall length of the annual report and the preference for narrative information over financial information; and (ii) charities increasing use of common headings such as 'charity mission and vision' and 'chairman's statement' under which to report. Although the current Statement of Recommended Practice (SORP) (Charity Commission 2005), together with a growing acceptance within the sector of the importance of non-financial information, may have contributed to the increase in the narrative information provided, there remain concerns over the actual content of such information.

When compared with Connolly and Dhanani (2006), the differences in results may be explained by several factors. First, this research and Connolly and Dhanani (2006) use different survey populations. The present research includes both fundraising and non-fundraising charities while Connolly and Dhanani includes only the former. To the extent that fundraising charities are more inclined to provide accountability-type disclosures to help raise the organisational profile and, by so doing, attract more funds, disclosure levels in Connolly and Dhanani might be expected to be higher. In fact, statistical analysis between the fundraising and non-fundraising charities included in this research reveals no significant differences between these two groups. Second, the charities included in this research may have used a greater proportion of presentational formats such as graphs, tables and pictures which, although collectively increasing the report length and the non-financial narrative information disclosed, actually added relatively little to the information disclosed. Finally, since 2000/01, charities may be increasingly relying on communication mechanisms other than the annual report (for example, the annual review and Internet) to discharge accountability, the outcome being reduced accountability-type disclosures in the annual report.

The annual review: bridging the gap?
Comparing the content of the annual reports and annual reviews reveals that, consistent with Connolly and Dhanani (2006), annual reports emphasise fiduciary and financial managerial-type accountability disclosures, while annual reviews (where available) focus principally on operational accountability-type disclosures. Therefore, annual reviews serve to fill the operational accountability gap present in annual reports. This trend persists despite calls from the Charity Commission (2004b) for charities to provide relevant activities and achievements-type disclosures in annual reports even if presented elsewhere. The rationale for this stems from the need to provide all relevant accountability-type disclosures in a single, mandatory document (Charity Commission 2005). The interviews suggest that this trend has arisen because charities target different audiences through the annual report and annual review, and wish to provide a distinct content in each of the documents. Specifically, the interviewees explained that when two separate documents are prepared, they each serve a distinct function and hence the content differs between them. The broad thrust of the comments was that the annual report is a ‘grey’ document that is produced to fulfil a statutory role and it is likely to be relevant only for larger donors, the internal board and senior management, who are in a position to interpret the information. The annual review, on the other hand, which is considered to be the more user-friendly document that enables charities to ‘tell their story’, is targeted at a wider audience, including smaller donors, the public at large and even beneficiary groups.

Two key and interrelated concepts may explain the differing functionality and, in turn, nature and content of the two reports: (i) a careful understanding of the differing layers of accountability among the different upward stakeholders (ie larger donors and fund providers, and smaller supporters, volunteer communities and the public); and (ii) a theory of communication which suggests that different types of publication and medium should be used for different audiences. Although the practices referred to above are not universal, they are clearly prevalent. Some charities produce only an annual report, and while there are clear examples of annual reports that include all three aspects of accountability, there are also cases of diminished managerial operational accountability in annual reports, which in the absence of the voluntary annual reviews creates an accountability gap.

Inadequate discharge of performance accountability
With respect to operational accountability-type disclosures, activities-type information dominates the annual reports (and annual reviews where published) and there is a notable absence of performance-type information. Indeed, even applying the broad definition of performance proposed by Connolly and Hyndman (2003) which ranges from basic input factors to more sophisticated efficiency and effectiveness data, 51% of the charities surveyed failed to provide this type of information in their annual reports. Consequently, only a very small proportion of organisations provided efficiency and effectiveness-type disclosures. In addition, across all types of disclosure, the reporting of future or forward-looking information was extremely limited. These results have two implications. First, as suggested by Wise (1995), the results may reflect internal practices, thereby indicating there is an absence of such accountability information for managerial use, perhaps because appropriate accountability systems with which to capture such details are not present. Indeed, the 2005 SORP (Charity Commission 2005) recommends that charities should disclose achievements and accomplishments information if these are measured internally. Second, from a stakeholder perspective, these results add weight to the notion of an accountability gap since charities fail to disclose the information that contributors find most useful (Hyndman 1990; Buchheit and Parsons 2006). Charities appear to seek legitimacy for their objectives and activities by presenting stakeholders with details about the projects and activities in which they are engaged, rather than by demonstrating the difference that they have made to the communities they serve.

The interviews reveal a number of factors that may be contributing to the limited reporting of performance accountability. These include: problems measuring charitable performance; uncertainty over what constitutes performance accountability; and identifying alternative sources of legitimacy. In relation to the first, the often ‘intangible’ nature of performance, time and resource implications (ie benefit-cost considerations) and difficulties of attribution in a multi-collaborative environment make measurement difficult. With respect to the other two, some charities appear to perceive activities-based information as equivalent to achievements-based information, and that organisational stakeholders accept activities-based information as a proxy measure for achievement or impact. In other words, the activities-based information currently provided is considered to be representative of charitable performance and a source of legitimacy. In addition, there is a view that engagement in the very activities themselves constitutes accountability to external stakeholders as it demonstrates that the organisations are engaging in activities to enhance societal development. This implies that the value-driven nature of the organisations constitutes a source of legitimacy. Given the transitory nature of such sources of legitimacy, it is encouraging to note that there appears to be recognition of the need to develop performance accountability systems.

The accountability–publicity mismatch
A further concern about the content of the annual reports and annual reviews is that while these documents, particularly annual reports, are intended to provide accountability-type disclosures to stakeholders, there is an accountability–publicity mismatch. When managerial accountability-type disclosures over and above descriptive fiduciary-type disclosures are provided, the content is driven by what will make a 'good story' or an 'interesting read' rather than a transparent, objective account of developments during the reporting period. As a result, charities diverge from an accountability agenda towards a publicity one, where only the best stories are relayed. One criticism often levelled at private sector companies is that they exhibit selective reporting practices that lack completeness, and engage in impression-management techniques in which the disclosures highlight positive actions and obfuscate negative effects (Neu et al. 1998; Adams 2004). Similar criticisms can be applied to the charitable sector.

Drivers of charity accountability
These results have important implications for the various initiatives developed to improve UK charity accountability. Specifically, the 2005 SORP (Charity Commission 2005), which contains detailed guidance on the content of the trustees' annual report, appears to have had a limited impact on reporting practices, since the discharge of accountability has weakened over time. To the extent that charities lack appropriate systems with which to record relevant accountability-type information, the issue lies with the internal operating practices of charities rather than the SORP. Moreover, as this research is based upon annual reports published shortly after the introduction of the 2005 SORP, charities may not have had sufficient time to implement fully all aspects of the SORP. Similar circumstances apply to the ImpACT Coalition and the Code of Fundraising Practice that were also in their infancy at the time of this research. Nonetheless, with respect to the SORP, the lack of compliance is surprising since the interviewees acknowledged that compliance with the Charity Commission's recommendations is perceived as a benefit to their organisation and the sector as a whole, and that comparability within financial statements is a useful tool for users of information.

Charities' website practices
As mentioned previously, 96% of the charities have their own website. In most cases, the websites are comparable with those of private sector organisations, being professionally created with appropriate site presentation and page design. The analysis suggests that downward stakeholders are the dominant target stakeholder group, and the interviews indicate that the websites are micro-managed to target specific audiences.

Fiduciary accountability exercised by uploading the annual report and the provision of governance information and 'internal' meetings is not universal. For example, approximately one-third of the charities examined failed to upload their annual reports onto their websites. One possible explanation for this is that charities use the Web pages themselves as a means of communicating with external stakeholders rather than through formal documents. This appears to be the case with operational accountability-type disclosures where charities readily provide information about their charitable objects and detailed discussions of their activities. The preference for operational accountability-type information may be explained by the fact that such disclosures are likely to meet (at least in part) the information requirements of both upward and downward stakeholders, in comparison with the less prevalent governance-type activities, which have a more limited audience. Although interviewees acknowledge the importance of the Internet, however, given the number of charities that failed to provide a copy of their annual report on their website and the limited managerial accountability information provided, it appears that charities are failing to use fully the potential of the Internet as a mechanism for discharging accountability.

Social enterprise organisations mimic charities
Based upon the content analysis of the annual reports of a small sample of social enterprise organisations (SEOs) and an analysis of their websites (see Appendix B), their accountability practices largely mirror those of charitable organisations. Specifically, the emphasis appears to be on disclosing: their mission and vision; the activities with which they seek to achieve these; and details of governance practices. Disclosures in relation to managerial accountability, defined in terms of both financial managerial accountability and operational managerial accountability, are lacking. Similarly, there is a tendency to relay organisational objectives and activities through the website, although the majority of SEOs choose not to provide their annual report. Nevertheless, the websites, like those of charitable organisations, are well organised and designed, with the information being presented in a succinct and visually attractive manner.

7.3 THE WAY FORWARD

Notwithstanding the limitations of this research (see section 7.4 below), based on the results reported above, the following recommendations are proposed to take forward the charity accountability agenda.

In accordance with the sector's clear understanding of the need to account to diverse stakeholder groups, and recognising the various communication channels available to do so, charities need to develop their accountability practices across all three themes of accountability identified in this study. There is a valid debate about whether to produce a single document in the form of an annual report or a separate annual report and annual review. The need to account, and indeed choosing to account, is likely to become increasingly important owing to increased media attention, a more aware and demanding public, and the emergence of organisations such as Intelligent Giving and New Philanthropy Capital, which seek to assess charitable organisations on behalf of interested stakeholders.

One area that appears to be a particular concern is the provision of performance accountability information, especially in the context of operational managerial accountability. This concern has also been voiced by the National Audit Office (2001), which urged the Charity Commission to encourage larger charities to provide more information in their annual reports on the efficiency and effectiveness with which they have used charitable funds. This was to make it clear what was achieved against what was planned, and to enable the comparison of the financial performance of similar groups of charities. The current sources of legitimacy, namely the provision of mission and vision and activities-type information, do not demonstrate charity effectiveness and may be short-lived. In light of the 2006 Charities Act, which emphasises the concept of public benefit and requires charitable organisations to report on this, the need for performance accountability information will increase. There is evidence that some charities are working towards developing a suitable programme for this, and efforts need to be sector-wide. Accepting that it is difficult to assess the achievements and success of NFPOs, charities cannot afford to shy away from this task and need to recognise and develop ways of overcoming the constraints in their own organisations. Many charities will need to begin by putting in place appropriate systems to measure performance internally before it can be reported externally. The Charity Commission is ideally placed to facilitate development in this area.

While accepting the arguments put forward for producing different documents to fulfil different purposes and objectives, charities need to ensure that the reports are not simply public relations documents. Such publications are not in themselves inappropriate, and are an important means of attracting support and funding; but they are distinct from accountability exercises and should be treated as such. Nevertheless, both the annual report and the annual review (where produced) can serve as important fundraising documents, purely from their role as objective and transparent accounts of organisations' activities and successes.

The Charity Commission has framed charity accountability in the context of the SORP, the focus of which has traditionally been on financial statements in annual reports. Recent attempts to develop the accountability agenda through the detailed and structured guidance for the trustees' annual report provided in the 2005 SORP (Charity Commission 2005), the establishment of Guidestar UK and the introduction of Summary Information Returns appear to have had limited impact, and, therefore, perhaps it is time to re-ignite the accountability debate. The Charity Commission is ideally placed to facilitate this, especially following the 2006 Charities Act. The Charity Commission, together with the Office of the Scottish Charity Regulator (OSCR), may wish to encourage self-regulation in partnership with key public sector umbrella bodies on the form and content of annual reviews in light of the evidence that different communication channels are required for different audiences. One advantage of a voluntary code of conduct is that it encourages member engagement and participation in the process.

Finally, the economic and political significance of the social enterprise sector is becoming increasingly important. SEOs need to formalise their discharge of accountability, both in terms of financial accountability and operational accountability. SEO accountability may be encouraged to attain higher standards of practice either through a regulatory body akin to the Charity Commission or OSCR, or through umbrella bodies such as the Social Enterprise Coalition or Social Enterprise London, which will themselves gain increased prominence as the sector expands.

7.4 LIMITATIONS AND FURTHER RESEARCH

This research focuses solely on large UK charities and therefore generalisations beyond this group should be made with caution. Intuitively, and as reported by the Charity Commission (2007c), it seems likely that the extent of narrative reporting would be significantly lower with smaller charities, given the likelihood of less well-developed information systems and their more limited resource bases. With respect to financial reporting, charity size has been found to be a determining factor in the quality of financial accounts, with larger charities having higher-quality reporting. Since smaller charities are likely to have more limited accounting systems, and recognising the fact that the majority of charities are smaller than the ones studied in this research, it would be useful to explore narrative reporting in small charities and extend the work of the Charity Commission (2007c).

In addition, it would be interesting to analyse the accountability practices of charitable and other NFPOs based outside the UK. Given the efforts not only of the sector and the Charity Commission in its capacity as a regulator, but also those of other umbrella organisations to take forward the accountability agenda, it would be useful to compare UK practices with those elsewhere. Research that inquires into the sustenance of the current sources with which charities seek legitimacy would also be valuable.

With respect to SEOs, these results must be viewed with caution. The small sample size and the potential selection bias may not be representative of the general SEO population and future research based on a larger, more representative sample is important.

Appendix A: Useful sources of information

CHARITIES OPERATING IN ENGLAND AND WALES

Charity Commission
London Office:
Charity Commission, Harmsworth House, 13 Bouverie Street, London EC4Y 8DP

Taunton Office:
Charity Commission, Woodfield House, Tangier, Taunton TA1 4BL

Liverpool Office:
Charity Commission, 2nd Floor, 20 Kings Parade, Queen's Dock, Liverpool L3 4DQ

The Charity Commission is the statutory organisation that regulates charities in England and Wales, providing guidance and advice to charities and having strong legal powers to investigate fraud or dishonesty. The Charity Commission does not extend to Northern Ireland (NI) or Scotland.

Tel: 0870 333 0123
www.charity-commission.gov.uk

CHARITIES OPERATING IN NORTHERN IRELAND

Charities Branch
Department of Health and Social Services
22 Castle Buildings, Stormont, Belfast BT4 3PP
Tel: 028 90 522 780
www.dsdni.gov.uk

Northern Ireland Council for Voluntary Action (NICVA)
NICVA is an umbrella organisation, seeking to represent the interests of voluntary and community organisations throughout NI. In its role as a voluntary sector development agency, NICVA acts as a catalyst to promote innovation and new approaches to the challenge of social need.

www.nicva.org/index.cfm

CHARITIES OPERATING IN SCOTLAND

Office of the Scottish Charities Regulator
2nd Floor, Quadrant House, 9 Riverside Drive, Dundee DD1 1NY
Tel: 01382 220446
www.oscr.org.uk

Scottish Council for Voluntary Organisations (SCVO)
SCVO seeks to advance the values and interests shared by voluntary organisations by fostering cooperation and promoting best practice, and through the delivery of sustainable common services.

www.scvo.org.uk/scvo/Home/Home.aspx

OTHER

Charities Aid Foundation (CAF)
CAF is a UK-based charity seeking to promote the charity sector through services to individual supporters, corporate supporters and charity organisations. Specific services include charity advice to the general public, a corporate advice centre to help companies develop their social responsibility structures, fundraising support, banking support and investment support for charitable organisations.

www.cafonline.org

CharitiesDirect
CharitiesDirect is a website that has been available since 2000 for use by charities, charity advisers, fundraisers and the general public. CharitiesDirect contains comprehensive financial information on the charity sector provided by CaritasData.

www.charitiesdirect.com/index.asp

Charityfacts
Charityfacts is a website set up specifically to provide individual supporters with high-quality and impartial information about how to give to charity, and the type of information they should look for from/in organisations.

www.charityfacts.org

Charity Finance Directors' Group (CFDG)
CFDG is an umbrella charity with the aim of advancing public education in, and promoting improved standards of, management in charities. Its vision is a transparent and efficiently managed charity sector that engenders public confidence and trust. CFDG delivers services to its charity members and the sector at large to enable those with financial responsibility in the charity sector to develop and adopt best practice.

www.cfdg.org.uk/cfdg/about.asp

GuideStar UK
GuideStar UK aims to provide a single, easily accessible source of detailed information about every charity and voluntary organisation in the UK.

www.guidestar.org.uk

Humanitarian Accountability Partnership (HAP)
HAP was established by a number of international NGOs who shared a commitment to make humanitarian action accountable to intended beneficiaries in situations of conflict and calamity. HAP developed the Principles of Accountability, a code of conduct aimed at promoting downward accountability to disaster victims and, in turn, improving the quality and effectiveness of member organisations' humanitarian work and the confidence in and support for these organisations. HAP members seek to comply with and promote the code of conduct through capacity-building, self-regulation, quality assurance certification and advocacy.

www.hapinternational.org

ImpACT Coalition
The ImpACT Coalition seeks to represent the views of the full range and diversity of voluntary sector organisations. Its mission is to promote better public understanding of how charities work and the benefits they bring to society by improving Accountability, Clarity and Transparency (ImpACT).

www.impactcoalition.org.uk

Institute of Fundraising
Established in 1983, the Institute of Fundraising is the professional body for fundraising, working to develop, promote and champion excellence in fundraising. To achieve its mission, the Institute of Fundraising seeks to promote the profession of fundraising at every applicable level and opportunity. The Institute of Fundraising strives to support and develop the knowledge and standards of all those who undertake fundraising. Through its members, and the best practice of fundraising, it seeks to engage and influence at all relevant levels from the general public to government and legislation.

www.institute-of-fundraising.org.uk

International Non-governmental Organisations Accountability Charter
The Accountability Charter endorsed by the largest NGOs operating in areas of societal development, such as poverty alleviation, sustainable development, women's rights, etc was set up to promote internal and external organisational accountability. Specifying a detailed code of conduct, the Charter intends to achieve organisational accountability through sound reporting practices and values, and morally driven internal organisational practices, policies and processes. The website details the work and intentions of the Charter.

www.ingoaccountabilitycharter.org/about-the-charter.html

National Council for Voluntary Organisations (NCVO)
Founded in 1919, NCVO is the largest umbrella body for the voluntary and community sector in England, with sister councils in Scotland, Wales and NI. NCVO is a lobbying organisation and represents the views of its members, and the wider voluntary sector to government, the European Union and other bodies. NCVO campaigns on generic issues affecting the whole of the voluntary sector, such as the role of the voluntary organisations in public service delivery and the future of local government.

www.ncvo-vol.org.uk

One World Trust
One World Trust is a not-for-profit organisation (NFPO) that encourages and promotes education, training and research into the changes required within global organisations to make them more accountable and answerable to the people they affect. It seeks to educate political leaders and opinion-formers about the findings of its research to influence policy decisions and international law.

www.oneworldtrust.org

Social Enterprise Coalition (SEC)
SEC is the UK's national body for social enterprise, and provides a national platform for showcasing its benefits. SEC aims to share best practice and influence policy in order to create an enabling environment for social enterprise. SEC is committed to representing the totality of social enterprise in all its forms, working to ensure social enterprises can learn from and support each other. To raise quality within the sector and enhance its capacity to grow, SEC undertakes a wide range of activities including:

- working with all levels of government, banks, financial institutions, legal bodies
- organising seminars and conferences
- publishing policy documents, training materials and best practice guides, and
- providing information about the sector.

www.socialenterprise.org.uk/default.aspx

The Sphere Project
The Sphere Project was launched in 1997 by a group of humanitarian NGOs, the Red Cross and Red Crescent movements. Its aim is to alleviate human suffering arising out of calamity and conflict with the principle that those affected by disaster have a right to life with dignity and, therefore, a right to assistance. Emphasising a commitment to quality and accountability, Sphere has developed a number of tools to enable NFPOs to discharge accountability to intended beneficiaries.

www.sphereproject.org

Appendix B: Accountability in SEOs

B.1 INTRODUCTION

This report focuses on the accountability of UK charitable organisations. In particular, it reviews the theoretical considerations of accountability (ie why charities need to account, the mechanisms with which to account, including the role of disclosure reports and websites, and the practices and views of a sample of large fundraising and non-fundraising UK charities). While charitable organisations clearly play a large and significant role in the UK and elsewhere, they form only one (significant) part of the third sector. This is a collective term, used to capture all organisations that operate principally as value-driven organisations to further the interests of society, and have neither a governmental status nor a private corporate status. There are a number of other similar types of organisations alongside charitable organisations that also form part of the third sector, including social enterprise organisations (SEOs), community organisations, cooperatives and mutuals. The focus of this chapter is on SEOs, a rapidly expanding group of third-sector organisations in the UK. Specifically, this appendix reports the results of a pilot study examining the accountability practices of a small number of UK SEOs.

Mirroring the structure of previous chapters, this appendix commences with background information on SEOs. This is followed by an outline of the UK social enterprise sector, before discussing the role and basis of accountability within such organisations and examining the accountability practices of a small number of SEOs. In the absence of earlier accountability research on SEOs, this chapter relies on arguments put forward in the previous chapters.

B.2 SOCIAL ENTERPRISE ORGANISATIONS: BACKGROUND

Social entrepreneurship is a relatively new term coined for a concept that has existed for over a century. The renewed interest in the concept is perhaps best explained by the exponential growth in the actual level and range of activity of social entrepreneurship around the globe. In the UK for example, there are more than 55,000 SEOs with an annual turnover of £27 billion that contribute over £8 billion to the UK economy, excluding the impact on society (Social Enterprise Coalition (SEC) 2008). The diversity of activities that SEOs have engaged in has grown extensively, and SEOs now exist to work in the interests of developing countries, and alongside governments in developed countries to provide healthcare and social welfare services, and in industries as diverse as finance and global sustainability.

Despite the widespread agreement about the role and contribution of SEOs to society among the diverse stakeholder groups, such as community activists, non-governmental organisations, policymakers, international institutions, academics and social entrepreneurs themselves, a principal issue that arises when discussing social entrepreneurship is: what does an SEO actually constitute? An SEO is defined as ‘a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners’ (Cabinet Office 2008: 2). Social Enterprise London (SEL), a coalition of social entrepreneurs in London, takes a broader view and describes SEOs as ‘organisations that use trading activities to achieve their goals and financial self-sufficiency…[and] combine the entrepreneurial skills of the private sector with a strong social mission…’ (SEC 2008: 1). Here, together with capturing the government’s view that SEOs generate surpluses for re-investment in social causes, the SEL perspective encompasses the situations in which the very activities and values of an organisation may serve to fulfil its social intentions. For example, organisations such as those seeking to employ disabled persons specifically to undertake their commercial activities or those trading in products that serve a social interest are classifiable as SEOs. In this case, the financial aim of the organisation may not be to generate any surplus profits, but rather to maintain a financial position that will enable it to continue to exist (for example, a break-even operation), while fulfilling its social agenda at a cost lower than that to society in its absence.

Elsewhere, for example in the US, there is a broader definition of SEOs whereby all organisations or individuals engaged in trades that contribute towards a social improvement, regardless of their legal form, are classified as social entrepreneurs. Notwithstanding the definition applied in the US, for the purposes of this report the more restrictive view of an SEO is applied. Its key distinguishing feature, compared with other types of businesses, is that the social objectives towards which it is working are central to its activities and override any financial motive in itself.

Both types of SEO (ie those that serve their social objectives by generating a planned profit from their activities, and those that serve them through the activities themselves) exist in the UK, and many also exhibit characteristics of both, seeking to profit to advance social development and also undertaking activities with a view to advancing development. The commercial orientation of SEOs and their social intentions principally frames how they may fulfil their social intent. For example, trading arms of charities that rely on gifts in kind from the public are more likely to pursue their societal objectives through the income generated, compared with childcare organisations that perhaps seek to further the welfare for beneficiary groups directly through the activities that they undertake.

SEOs operate like businesses in that they engage in trade, take risks like conventional businesses and often compete in the marketplace with for-profit organisations. Like businesses, many rely on bank loans and equity from financial intermediaries and investors with socially responsible motives, though they may, unlike private businesses, also attract some philanthropic support from other organisations and individuals (financial or otherwise). In general, SEOs should derive at least half their income from their trading activities. The business-like arrangement of SEOs and, in turn, their financial self-sufficiency is what broadly distinguishes SEOs from charitable and other third-sector organisations. They are not mutually exclusive, however, from other types of third-sector organisations. For example, there may be situations in which some SEOs may be in a position to operate as registered charities in order to enjoy extensive taxation benefits. Equally, charitable organisations and cooperatives may operate as SEOs as they seek to generate an income to support their charitable intent or undertake commercial activities to promote societal development. In the UK, SEOs, like charitable organisations, may operate under a number of different legal structures including limited companies, companies limited by guarantee, trusts or incorporated associations and, more recently, community interest companies (which are designed for social enterprises that wish to use their profits and assets for the public good).

B.3 THE SOCIAL ENTERPRISE SECTOR IN THE UNITED KINGDOM

The UK has a distinct history of social entrepreneurship dating back to the mid-19th century; although the 1970s saw a marked development when the new social movements of the times were matched with increasing consumer awareness and enthusiasm for socially responsible consumerism (SEC 2008). The 1990s experienced yet another surge in social entrepreneurialism when SEOs played a significant role in the reform of public services in a number of different areas, including social care and healthcare. The most notable was social housing, in which a large proportion of public housing stock was transferred from the public sector to representative housing associations and cooperatives (Cabinet Office 2002). Since then a number of developments have taken place, including governmental initiatives to take the sector forward, testifying to the importance and significance placed upon it.

In 2000, the UK Social Investment Forum, a not-for-profit organisation (NFPO) dedicated to socially responsible investment set up the Social Investment Taskforce (SIT), in partnership with the New Economics Foundation and the Development Trusts Association (both NFPOs), to develop the sector further. Specifically, SIT sought to explore the roles that the voluntary sector, businesses and government could play to enhance societal development. In 2001, in an attempt to demonstrate its commitment to the sector, the government formed the Social Enterprise Unit (SEU) within the Department of Trade and Industry (following a Cabinet reshuffle in 2006, SEU was moved to the Office of the Third Sector). In 2002, the government announced the establishment of the SEC and published a three-year action plan, *Social Enterprise: Strategy for Success* (Cabinet Office 2002). It aimed to promote the sector within the public sector and with the public more generally; support the sector with appropriate guidance, training and development; and invest in and identify other sources of revenue for the sector and help facilitate the development of financial institutions specifically for the SEOs. The government pledged further support for the sector through *Social Enterprise Action Plan: Scaling New Heights* (Cabinet Office 2006), in which it identified further ways to achieve its 2002 intentions.

As a result of these publications, a number of initiatives have been put forward. At national level these include: the establishment of tax credits for community investment; the development of Community Development Financial Institutions; and the introduction of the community interest companies. Financial support from government was confirmed through the *Risk Capital Investment Fund* (Cabinet Office 2008). Both the Department of Health and the Department of Environment, Food and Rural Affairs have introduced their own internal SEO sub-units, to encourage the development of social entrepreneurship in their respective fields with funding opportunities, while the Department for Education and Skills has made social entrepreneurialism a part of the educational curriculum. Governments in Northern Ireland, Wales and Scotland have all developed strategic plans to support the development of the social economy, with a specific focus on the role of the SEOs.

B.4 SOCIAL ENTERPRISE ORGANISATIONS AND ORGANISATIONAL ACCOUNTABILITY

In the context of stakeholder theory and through the lens of legitimacy theory, Chapter 2 identified a number of reasons why charitable organisations should account to their stakeholders. It put forth the view that external accountability enables organisations to achieve legitimacy with upward and downward stakeholders and the public at large, and facilitates an improvement in organisational performance through motivation and organisational learning. While the traditional role of the principal–agency relationship was considered to be strained in the absence of a stakeholder group that matches traditional investors in corporate organisations, the basic notion of 'holding to account' was seen as being inappropriate for value-driven organisations that should, as a result of their values and morals, choose to account.

The same motivations apply for SEOs. They need to account to their fund providers, be they government, private individuals or socially responsible institutional investors, to attract and maintain social investment. In the light of the different ways in which organisations may seek to enhance societal development, they need to explain the ethical and value-driven motives and agenda of the organisation, how they work towards achieving these and the extent to which they have achieved them. Indeed, the SEC, in response to the government's consultation on the framework for the 'Risk Capital Investment Fund', commented that because SEOs will be looking to deliver a blended return in terms of financial sustainability and social development, it is important that social return on investment forms part of the framework created (Larkin 2007). Similarly, organisations need to account to and account for their downward stakeholders, be they recipients, suppliers or purchasers of products or services. Individual purchasers may, for example, want to ensure that their socially responsible supplier meets certain ethical criteria that supersede those of purely commercial organisations, especially if they are to pay a premium price for their supplies. Like charitable organisations, SEOs need to take into consideration the expectations and circumstances of the communities that they are seeking to serve, to ensure that development does actually take place. Finally, as organisations consciously account to their stakeholders, the systems in place enable organisations to learn about their strengths and weaknesses and capitalise upon the former while seeking to overcome the latter.

In relation to organisational performance as a key feature of accountability, there is an added complication for SEOs compared with charitable and other third-sector organisations. SEOs are run as businesses, which means that managers need to account for the financial aspects as well as the social aspects and any interrelations between the two. For example, for an organisation that employs homeless persons to conduct its activities, management needs to report on: the financial performance of the organisation and its views on continued sustenance; the social benefits to the homeless persons the organisation is serving; and how the fine balance between the two objectives is maintained.

Like charitable organisations, SEOs have access to various mechanisms with which to discharge social accountability to external stakeholders, including regular reporting practices, performance assessments, participation, self-regulation and social accounting. Focusing on the former, in accordance with the UK reporting requirements of business organisations and NFPOs, all SEOs of a sizeable nature are required to produce annual reports, and some may also choose to discharge their accountability through additional vehicles such as additional documents or their websites. SEOs also have responsibility to ensure their fiduciary accountability, financial accountability and operational accountability. In particular, they need to demonstrate probity, compliance, good governance and control; to highlight the financial position to indicate sustenance; and show impact (ie developments in society). Specific aspects within these categories may differ between charitable organisations and SEOs, and among SEOs, depending upon the motives and bases of the organisations. For example, an organisation using its activities to generate surplus profits to reinvest in social activities will have a different basis for financial accountability than one seeking resources to enable it to continue to contribute to social development through its activities.

Initiatives aimed at encouraging accountability in SEOs are broadly absent. This this may in part be explained by the infancy of the sub-sector, and also by the current focus of the government and relevant umbrella organisations on extending the development of the sector, rather than on the way in which it conducts its activities.

B.5 SOCIAL ENTERPRISE ORGANISATIONS: ACCOUNTABILITY PRACTICES

Annual reports

A pilot study was undertaken to examine the accountability practices of a small number of SEOs. Twelve SEOs were approached for their annual reports and financial statements (hereafter referred to as ‘annual reports’) and annual reviews, and their content was analysed in the same manner as those of the charitable organisations described in Chapter 4. In the absence of a comprehensive database of SEOs by defining characteristics, such as size or areas of activity, for the purposes of this study the sample was selected on the basis of the SEOs known to the authors, and details of organisations provided on the SEL and SEC websites.

Six of the 12 organisations contacted provided a copy of their annual reports. Only one provided its annual review (Table B.1) and, consequently, the analysis of reporting practices is based only on the annual reports received. The website of each of the 12 SEOs, the total SEO sample, was also examined.

Of the six respondent SEOs, five operated in a specific area of activity, while one operated on the fringe of the public sector and was a public sector organisation before it became an SEO (Table B.2). The areas of activity ranged from provision of banking and recycling services to helping development in international communities. The sizes of the organisations varied significantly with the largest generating an annual income of over £2 billion and the smallest, which was reliant principally on grant funding, less than £1 million.

As with charitable organisations, the size of the annual reports varied considerably, with the largest report being more than five times the size of the smallest one (Table B.3). The split of financial and narrative information within the SEO reports was also similar to that of charities, with narrative marginally exceeding the level of financial information provided. Within the narrative section, all charities provided a section on ‘summary of activities’, and five of the six SEOs also had a section on ‘organisational mission’ and a directors’ report. The latter was much more common among SEOs than charities, although this is not surprising given that most SEOs operate as business organisations and a directors’ report is a common feature of such organisations.

As reported in Table B.4 (page 69), in relation to fiduciary accountability, five of the six SEOs examined included a section on governance and decisionmaking in their annual reports, and five also provided an indication of how they analysed the risks that they faced. Only two organisations, however, elaborated on this by specifying the major risks that they faced, and none provided a statement to confirm that their risks had been managed.

Table B.1: Social enterprise organisation response rate

Panel A: Overall response rate	Annual reports	Annual reviews
Number of requests made	12	12
Number of usable responses	6	1
Response rate (%)	50%	8%

Panel B: Total documents received	Number	%
Annual report and annual review received	1	8
Annual report only received	5	42
No response	6	50
Total	12	100

Panel C: Annual reports	Number	%
Hard copy	4[a]	33
Soft copy	2	17
No response	6	50
Total	12	100

Note

a Of which one also sent its annual review.

Table B.2: Respondent characteristics

Panel A: Principal areas of activity[a]			
Nature of work		**Area of activity**	
Operates in a specific area of activity	5	Business and professional	3
Operates on the fringe of the public sector	1	Housing and community affairs	1
Responds to crises	–	International activities	2

Panel B: Financial characteristics[a]	Income (£m)	Expenditure (£m)
Minimum[b]	0.8	0.7
Maximum	2,083	2,030
Mean	453.3	411.7
Standard Deviation	826.5	804.4

Notes

a Details and figures based upon the six SEOs providing copies of their annual reports.

b The smallest SEO was principally grant reliant, while the others generated a significant proportion of their income from trading activities. The smallest SEO generated an annual income of less than £1 million, but the second smallest in the sample generated an income of just over £16 million.

Table B.3: Annual report characteristics

Panel A: Title and time period (n = 6)					
Document title	**No.**	**%**	**Time period**	**No.**	**%**
Accounts	1	16	2005/06	6	100
Annual report	3	50			
Financial statements	1	17			
Report and accounts	1	17			

Panel B: Document length (pages)			
	Total	**Financial statements**	**Narrative information**
Minimum	14	4	6
Maximum	82	34	48
Mean	45	21	22
Standard deviation	27	12	19

Panel C: Document content (n = 6)					
	No.	**%**		**No.**	**%**
Objectives/mission/vision	5	83	Governance	4	66
Summary of activities	6	100	Trustees' report	1	17
Chairman's statement	4	66	Directors' report	5	83
Treasurer's statement	–	–			

Table B.4: Annual reports: Descriptive analysis of fiduciary accountability disclosures

	Disclosing SEOs		Number of words disclosed[a]				Content: Explanation/ assessment		Content: Future	
	No.	**%**	**Min.**	**Max.**	**Mean**	**Std. dev.**	**No.**	**%**	**No.**	**%**
Organisational structure										
Governance and decision-making	5	83	225	2,475	1,183	849	–	–	–	–
Partnership arrangements	2	34	25	110	68	60	–	–	–	–
Governance										
Trustee selection and appointment policy	1	17	120				–	–	–	–
Trustee induction and training policy	1	17	180				–	–	–	–
Overall risk management										
Risk management approach	5	83	50	585	207	217	–	–	–	–
Major risks encountered	2	34	225	1,200	713	689	–	–	–	–
Financial										
Reserves policy	1	17	15				–	–	–	–
Investment policy	1	17	25				–	–	–	–

Note

a The mean level and standard deviation results are based upon disclosing SEOs only.

In relation to financial managerial accountability disclosures (Table B.5), three (50%) of the SEOs provided information about their organisational efficiency, while only two disclosed their overall financial position, even though five of the six SEOs generate a large proportion of their income through trading activities. These results are surprising because first, as limited companies, business organisations provide detailed reports on performance, and second, as explained earlier, SEOs need to review their financial performance either as an indicator of the surpluses generated for social reinvestment or as an indicator of self-sustenance and operations as a going concern (or a combination of the two).

The trends apparent in relation to financial managerial accountability also reflected disclosures related to operational managerial accountability (Table B.6). Only two of the six SEOs explicitly stated what their social objectives and values were. Four of the six expanded on this to explain how they sought to achieve these objectives (ie disclosed information about activities), but only two organisations provided disclosures to indicate the impact that these activities had had or were having on the communities that they were trying to serve. These results are not dissimilar to those found for charitable organisations (where 58% provided relevant disclosures (see Table 4.6, page 29) although a higher proportion of charities provided performance information – 49% of charities versus 33% of SEOs).

Notwithstanding that only a small number of SEOs was examined, these results indicate that the SEOs, which share characteristics of both business organisations and charitable organisations, have broadly failed to provide disclosures comparable to those of these organisations in relation to either trading activities or social intentions. Moreover, in contrast to the expectation that SEOs would need to explain how the fine balance between the two conflicting objectives was maintained (see section B.2 above), none of the organisations discussed its financial and social objectives in tandem.

Table B.5: Annual reports: Descriptive analysis of financial managerial accountability disclosures

	Disclosing SEOs[a]		Number of words disclosed[b]				Content: Information type			Comparison		Explan-ation	Future
	No.	%	Min.	Max.	Mean	Std. dev.	Qual.	Quant.	Mon-etary	Prior	Target		
Income review	–	–	–	–	–	–	–	–	–	–	–	–	–
Expenditure review	–	–	–	–	–	–	–	–	–	–	–	–	–
Financial health	2	34	30	300	165	191	2	–	–	–	–	1	–
Financial investment policy	1	17	300	–	–	–	1	–	–	–	–	1	–
Financial reserves policy	–	–	–	–	–	–	–	–	–	–	–	–	–
Trading activities[c]	1	17	105	–	–	–	1	–	–	–	–	1	–
Organisational efficiency	3	50	300	–	–	–	3	–	–	–	–	1	1

Notes

a When calculating the percentage values for the SEOs disclosing the relevant sub-category, the denominator (ie the total number of SEOs) refers to the total number of SEOs to whom the sub-category was relevant.

b The mean level and standard deviation results are based upon disclosing SEOs only.

c Disclosure of this item is not required by the 2005 SORP (Charity Commission 2005).

Table B.6: Annual reports: Descriptive analysis of operational managerial accountability disclosures

	Disclosing SEOs[a]		Number of words disclosed[b]				Content: Information type			Comparison		Explan-ation	Future
	No.	%	Min.	Max.	Mean	Std. dev.	Qual.	Quant.	Mon-etary	Prior	Target		
Mission statement[c]	1	17	100	–	–	–	1	–	–	–	–	–	–
Aims and objectives	2	34	50	65	58	11	2	–	–	–	–	–	–
Activities													
Descriptive information	4	66	350	3,850	1,388	1,649	4	–	–	–	–	–	–
Achievements/performance													
Inputs information	–	–	–	–	–	–	–	–	–	–	–	–	–
Outputs information	–	–	–	–	–	–	–	–	–	–	–	–	–
Results information	2	34	1,290	3,150	2,220	1,315	2	–	–	–	–	–	–
Efficiency information	–	–	–	–	–	–	–	–	–	–	–	–	–
Effectiveness information	1	17	190	–	–	–	1	–	–	–	–	–	–
Total performance information	2	34	190	3,150	2,315	1,180	2	–	–	–	–	–	–

Notes

a When calculating the percentage values for the SEOs disclosing the relevant sub-category, the denominator (ie the total number of SEOs) refers to the total number of SEOs to which the sub-category was relevant.

b The mean level and standard deviation results are based upon disclosing SEOs only.

c Disclosure of this item is not required by the 2005 SORP (Charity Commission 2005).

Table B.7: Sample characteristics

Principal areas of activity	Operates on the fringe of the public sector	Operates in a specific area of activity	Responds to crises	Total
Sample size	2	10	–	12
Number of SEOs with a website	2	10	–	12
Percentage of SEOs with a website	100%	100%	–	100%

Table B.8: Website presentation and usability: site design

(n = 12)	Strongly disagree	Disagree	Undecided	Agree	Strongly agree
Easy to navigate	–	–	3	9	–
Layout and organisation makes sense to the user	–	–	1	10	1
Straightforward headlines and page titles that clearly explain the content	–	–	–	11	1
User able to navigate around site from ‘current’ page without having to go ‘back’ or ‘home’	–	–	–	11	1
Information clearly provided for different stakeholder groups	–	–	1	11	–

	Yes	No
Internal ‘search’ option available on each page	3	9
Contact details/link clearly visible from home page	12	0

Table B.9: Website presentation and usability: page design

(n = 12)	Strongly disagree	Disagree	Undecided	Agree	Strongly agree
Organised for ease of use, and dominated by information that is of interest to users	–	–	2	10	–
Information presented in a way that is relevant to each stakeholder group	–	–	1	10	1
Succinct (recommended that Web text is less than 50% of the text that would be used in a hard-copy publication)	–	1	–	8	3
Hypertext used to split lengthy documents/content into multiple smaller documents/units	1	2	–	9	–
Scanability enhanced by using appropriate headings and subheadings, colour and bold words	–	–	–	11	1

Information explained by way of	Text only	Text and graphics
	–	12

Use of other media	Audio	Video
	–	3

Website analysis
A website analysis similar to that for the charitable organisations in Chapter 5 was undertaken in the same time period (August 2007). The website of the 12 SEOs whose annual report was requested were reviewed (Table B.7). Two operated on the fringe of the public sector and 10 undertook a specific activity.

The majority of the websites were considered to be well designed in that the layout and organisation of the information was appropriate, the text was well presented with use of headlines that captured its essence and the information was provided clearly for the different stakeholder groups (Table B.8). In comparison with the charitable organisations, however, fewer were considered ‘strong' in this regard. In addition, three of the 12 websites were viewed as being not easy to navigate, and only three had an internal search engine. These results compare less favourably with those of charities in which 87% had this feature (see Table 5.2, page 41). Nonetheless, consistent with the charitable practices, each of the SEO websites included contact details or a link to a ‘contact us' page.

In relation to page design, like charities, almost all SEOs included information that was relevant to their stakeholders, and this information was generally presented with a particular stakeholder group in mind (Table B.9). The information presented was succinct and visually scanable through the use of colour, headings and bold texts. In three cases, however, lengthy documents were not split into easily usable smaller units. To enhance the information presented, all SEOs combined textual content with pictures and graphics, and three of the 12 organisations uploaded videos on their sites; none used audio materials.

With respect to online accountability practices (Table B.10, Panel A), seven of the 12 SEOs presented their annual accounts on the website, and three also presented additional financial information of a performance nature. None of the SEOs presented its annual review on the website, but this may be explained in part by the lack of such documents, rather than a decision to omit them from the websites. Annual reports were generally presented in PDF format version, though one SEO also provided an HTML version. Overall, the degree of importance placed by SEOs on the annual documents in general is unclear, with only seven providing such information online. Only four of these organisations had a link to the annual report from the home page, and when key search terms such as ‘annual reports', ‘annual report and financial statements' and ‘accounts' were used, only four websites delivered the appropriate document.

Finally, with respect to accountability-type disclosures on the websites (Table B.10, Panel B), all SEOs provided a mission/vision for their work and the activities that they engaged in to accomplish this mission. A proportion (75%) also identified key organisational members, including senior management and non-executive members/trustees, and described key decision-making bodies. None of the SEOs, however, provided minutes of meetings or its disclosure policies, and only one SEO provided material in a language other than English to discharge accountability to non-English-speaking stakeholders. These results are not dissimilar to those of charities reported in Chapter 5, in that SEOs readily provided information about their daily activities and to demonstrate good governance activities, but were conservative in stating their disclosure policies and how they handled traditional internal meetings information.

B.6 CONCLUSION

The objective of this appendix has been to examine for the first time the accountability practices of a small sample of SEOs, organisations that combine the pursuance of social objectives in a context of financial self-sustenance. Forming a key part of the third sector in the UK, the authors put forward the view that, like charitable organisations, SEOs need to discharge accountability to external stakeholders including investor and donor groups, the societies that they are trying to serve and the suppliers and customers through whom they may serve them.

The content analysis of the annual reports of the six respondent organisations and an analysis of the websites of the 12 SEOs show that the discharge of accountability through the annual report is similar to that of charitable organisations. The emphasis appears to be on the mission and vision of the organisations and the activities that they undertake to help achieve these, together with demonstration of good governance practices. Disclosures about managerial accountability, defined in terms of financial performance and/or social performance, appear to be somewhat lacking.

Website practices reiterate these findings in that there is a tendency to relay the organisational objectives and activities, although a significant proportion of SEOs have chosen not to discharge accountability through the provision of their annual report. Nevertheless, SEO websites, like those of charitable organisations, are well organised and designed with relevant information presented in a succinct and visually attractive manner. Overall, as well as enhancing the development of the sector, the government and umbrella bodies such as the SEL and the SEC need to encourage higher standards of practice, of which (social) accountability is one.

Nonetheless, these results must be viewed with caution. First, the small sample size may not be representative of the general SEO population and second, inclusion of some smaller-sized SEOs (in relation to the large charities) may help explain the absence of certain accountability disclosures.

Table B.10: Website content: annual reports and annual reviews and other accountability disclosures (n = 12)

Panel A: Accountability approaches			
Availability of	**Yes**	**No**	
Annual report	7	5	
Other financial information	3	9	
Auditors' report	7	5	
Format of	**HTML**	**PDF**	**Both**
Annual report	0	6	1
Link from home page to	**Yes**	**No**	
Annual report	2	10	
Other financial information	–	12	
'Search option' accuracy	**Yes**	**No**	
Annual report	1	2	
Accounts	0	3	
Annual report and financial statements	1	2	
Hyperlink	**Yes**	**No**	
Unaudited information linked from audited information	–	12	
Unaudited information linked to audited information	–	12	
Other financial information			
Type	**Financial**	**Performance**	**Both**
	–	3	–
Format	**Numerical**	**Text**	**Graphics**
Financial information	–	–	–
Performance information	–	3	–
Nature	**Historical**	**Future**	**Both**
Financial information	–	2	1
Performance information	–	2	1

Panel B: Accountability type disclosures (fiduciary and managerial accountability)		
Disclosure	**Yes**	**No**
Description of objectives/mission/vision	12	–
Description of activities	12	–
Detailed discussion of main activities provided	11	1
Key organisational members identified (including trustees)	9	3
Meaningful description of key decision-making bodies	8	4
Agendas and minutes of governing and executive bodies' meetings available	–	12
Disclosure policy identified	–	12
Information available in the languages of those with a stake in the organisation	1	11

Appendix C: Definitions and disclosure examples

DEFINITIONS

Effectiveness
Relationship between outputs and objectives, eg actual versus planned number of operations.

Efficiency
Relationship between inputs and outputs, eg cost per person assisted, number of cases handled per employee.

Future target information
A time frame must be included, and it must be more than a bland statement.

Impact
The broad, longer-term effects of the charity's work.

Inputs
Resources used in providing the service, eg sources of income, expenditure incurred, number of staff or volunteers, including hours.

Outputs
Actual goods and services produced, eg number of tests/inspections, number of people assisted or trained. Does not measure impact upon clients or problems.

Results
Impact upon clients/users, eg change in level of awareness/education, user/customer satisfaction, personal stories.

EXAMPLES OF GOALS AND OBJECTIVES, INPUTS, OUTPUTS AND RESULTS

Goals and objectives
To offer practical and emotional support to men, women and children affected by HIV/AIDS-related illnesses.

To preserve places of historic interest or natural beauty permanently for the benefit of the nation.

Inputs
Analysis of total expenditure for the year split between direct awards made by the scientific committee and other expenditure.

Analysis of expenditure on the different services provided during the year, together with a description of the different types of services provided.

Outputs
Emergency response (North Korea): more than 26,000 people received regular aid parcels, containing basic foodstuffs, clothing and first aid kits.

Student Support Network: helped 1,100 people to get a job.

Benefit Rights and Information Team: gave individual help to nearly 8,000 people, mainly pensioners.

Results
Numbers of lives saved, persons landed and persons brought in during the year (and comparisons with nine previous years).

The prevalence of blindness has decreased by over 50% in areas where the programme has been running.

EXAMPLES OF EFFICIENCY, EFFECTIVENESS, FUTURE TARGET INFORMATION AND BUDGET INFORMATION

Efficiency
Table indicating the cost per trainee over a five-year period.

Split of expenditure between administration and fundraising, and direct support of animals.

Effectiveness
Target: provide training and work experience for an average of 1,350 unemployed persons.
Actual: an average of 1,356 trainees were provided with training and work experience.

Target: to conduct six audits of the quality of residential services.
Actual: Achieved.

Future target information
To identify at least 25 coaches and to organise a development programme over the next three years.

To help half the total number of those seriously ill at home with cancer (rather than the current one-third).

Budget information
Income, expenditure and cash flow budgets for four years.

Budget information for the coming year: provide grants of more than £10 million for 150 research projects.

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RR/109/001

ISBN: 978-1-85908-452-6

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